



Comprehensive Annual Financial Report

Richard J. Notte
Mayor

Michael C. Taylor
Mayor Pro Tem

Deanna Koski
Councilwoman

Joseph V. Romano
Councilman

Maria G. Schmidt
Councilwoman

Paul Smith
Councilman

Barbara A. Ziarko
Councilwoman

Mark D. Vanderpool
City Manager

Brian S. Baker
Finance and Budget Director

Leslie D. Reinhart, CPA
Controller

For the Fiscal Year Ended June 30, 2011

Prepared by the Office of Financial Services, City of Sterling Heights, Michigan

City of Sterling Heights, Michigan

Contents

Introductory Section

City Manager's Summary of Fiscal Year 2010/2011 and a Look at the Future of the City of Sterling Heights	i-iv
Letter of Transmittal	v-x
GFOA Certificate of Achievement	xi
City Organization Chart	xii
List of Principal Officials	xiii
Fund Organization Chart	xiv

Financial Section

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-15
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	16
Statement of Activities	17-18
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	19-20
Reconciliation of Fund Balances to the Statement of Net Assets	21
Statement of Revenue, Expenditures, and Changes in Fund Balances	22-23
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	24
Proprietary Funds:	
Statement of Net Assets	25
Statement of Revenue, Expenses, and Changes in Net Assets	26
Statement of Cash Flows	27-28
Fiduciary Funds:	
Statement of Fiduciary Net Assets	29
Statement of Changes in Fiduciary Net Assets	30

City of Sterling Heights, Michigan

Contents (Continued)

Financial Section (Continued)

Component Units:	
Statement of Net Assets	31
Statement of Activities	32
Notes to Financial Statements	33-72
 <u>Supplemental Information</u>	
Required Supplemental Information	73
Budgetary Comparison Schedule - General Fund	74
Budgetary Comparison Schedule - Major Roads Fund	75
Budgetary Comparison Schedule - Community Development Block Grant Fund	76
Pension Systems Schedule of Funding Progress	77-79
Note to Required Supplemental Information	80-81
Other Financial and Supplemental Information	82
Nonmajor Governmental Funds:	83
Combining Balance Sheet	84-85
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	86-87
Budgetary Comparison Schedule	88-93
Major Funds:	94
Budgetary Comparison Schedule - Major Debt Service and Capital Projects Funds	95-96
Fiduciary and Agency Funds:	97
Combining Statement of Fiduciary Net Assets - Trust Funds	98
Combining Statement of Changes in Fiduciary Net Assets - Trust Funds	99
Combining Statement of Fiduciary Assets and Liabilities - Agency Funds	100
Combining Statement of Changes in Assets and Liabilities - Agency Funds	101

City of Sterling Heights, Michigan

Contents (Continued)

Statistical and Continuing Disclosure Section

Statistical Information and Continuing Disclosure Contents	102-103
Statistical Information	104
Financial Trends	
Net Assets by Component	105
Changes in Net Assets	106-107
Fund Balances of Governmental Funds	108
Changes in Fund Balances of Governmental Funds	109-110
General Governmental Tax Revenue by Source	111
Revenue Capacity	
Property Tax Levies and Collections	112
Property Tax Rates - Direct and Overlapping Governments	113-114
Assessed Taxable Values (History of Property Values)	115-116
Principal Property Taxpayers (Major Taxpayers)	117
Debt Capacity	
Ratios of General Bonded Debt Outstanding	118
Ratios of Outstanding Debt by Type	119
Direct and Overlapping Governmental Activities Debt	120
Legal Debt Margin	121
Legal Debt Margin Information	122
Pledged Revenue Coverage	123
Demographic and Economic Information	
Demographic and Economic Statistics	124
Miscellaneous Demographics	125
Principal Employers (Major Employers)	126
Operating Information	
Operating Indicators by Function	127-128
Capital Asset Statistics by Function	129
Building Permits at Market Value	130
Full-time Equivalent City Government Employees by Function	131
Continuing Disclosure	132
State-shared Revenue	133
Gas and Weight Taxes	133
Labor Agreements	134

Administration Building

40555 Utica Rd. / P.O. Box 8009
Sterling Heights, MI / 48311-8009

[TEL](tel:586.446.5810) 586.446.CITY (2489) / [FAX](tel:586.276.4077) 586.276.4077

cityhall@sterling-heights.net / www.sterling-heights.net
www.facebook.com/cityofsterlingheights / www.twitter.com/sterling_hts

CITY COUNCIL

*Mayor
Mayor Pro Tem
Councilwoman
Councilman
Councilwoman
Councilman
Councilwoman*

Richard J. Notte
Michael C. Taylor
Deanna Koski
Joseph V. Romano
Maria G. Schmidt
Paul Smith
Barbara A. Ziarko

CITY MANAGER

Mark D. Vanderpool

CITY MANAGER'S SUMMARY OF FY2010/2011 AND A LOOK AT THE FUTURE OF THE CITY OF STERLING HEIGHTS

Honorable Mayor, City Council, and Community Residents:

This executive summary for the City of Sterling Heights serves as an overview of the City. Contained within this report is pertinent information about the City's community and economy during the past year, as well as a look to the future.

AN ESTABLISHED AND RESPECTED COMMUNITY

The City of Sterling Heights was incorporated July 1, 1968 operating under a Council-Manager form of government. The City is governed by a Mayor and a six-member City Council, who individually serve two-year terms. Under the Council-Manager form of government, the Mayor and City Council appoint two officials: the City Manager and the City Attorney. The City Manager is the chief administrative officer of the City and is responsible for its daily operations, while the City Attorney provides legal counsel to City Council. The Mayor and City Council also appoint residents to the boards and commissions to assist in implementing initiatives set forth by the Sterling Heights City Council. More than 170 volunteers dedicate their time and talents to the City's 28 boards, commissions, authorities, committees, as well as the Sterling Heights Community Foundation.

TO STRIVE ON BEHALF OF ALL

Recognized as a progressive city, Sterling Heights' elected officials and professional staff are committed to providing outstanding services to city residents. The City's elected and administrative officials occupy leadership roles in state, regional, and national organizations, such as the Michigan Municipal League, Michigan Government Finance Officers' Association, and the International City/County Management Association.

Sterling Heights has pursued a policy dedicated to attracting and retaining highly qualified personnel at all levels to provide quality services. The City provides a level of compensation sufficient to attract and retain the talent and expertise necessary to properly serve the community. A majority of our supervisory personnel hold graduate degrees in their respective fields with over 95.0 percent of our city department heads holding post-graduate degrees. In addition to these credentials, several of our employees have received special recognition for their abilities from their peers via election to state or national offices of professional associations and as instructors at professional seminars.

The City's current administration has been in place for several years and has taken many steps toward improved budgeting, controlled costs, and improved efficiency which has helped in dealing with the current economic conditions. The City has developed a proactive economic strategy that is multi-faceted consisting in large part of the following:

- ▶ The City is striving to protect property values in the City by pursuing proactive economic development strategies to preserve a comparatively speaking strong local economy.
- ▶ The City remains vigilant with property maintenance enforcement to ensure properties are maintained and do not fall into a state of disrepair. Maintaining property values and minimizing the decline through an effective property maintenance inspection program is an important component to our overall financial plan.
- ▶ An outreach program entitled Sterling Heights Initiative for Neighborhood Excellence (SHINE) was developed to supplement the ongoing code enforcement efforts by working hand-in-hand with property owners to assist and encourage quality property maintenance. An important component of government, the Board of Ordinance Appeals has been effective in promoting and enforcing quality community appearance standards which directly affect property values.
- ▶ The City, operationally speaking, must continue reducing expenditures as reflected in the budget approved by City Council this year which includes an overall reduction of \$7.1 million.
- ▶ The City has eliminated 106 vacant full-time positions (or 16 percent of its workforce) since 2002, saving over \$7.9 million annually. The City's current staffing level is at its lowest level since 1977.
- ▶ The City has implemented significant labor concessions resulting in health care savings of \$1 million annually and \$20 million actuarially (over a number of years) by reducing retiree health care benefits.
- ▶ The City no longer offers fixed pensions for general employees beginning with those hired after 1997 and additional personnel savings were achieved by City employees agreeing to 10 percent wage concessions. The City is also seeking further wage and benefit reductions.
- ▶ The City continues to pursue service-sharing agreements with surrounding communities and other entities. The Macomb Area Communities for Regional Opportunities (MACRO) was established to assure the continued delivery of public services to residents, businesses, and governmental agencies.

A Viable and Diversified Community

Sterling Heights has developed into one of Macomb County's leading cities offering a rich combination of commercial and residential life. This successful development results largely from the *Master Land Use Plan*, created by the City in the early 1970s, which provides direction for the community's growth and development. The *Master Land Use Plan* was updated recently to address maximum usage of all property within the city, including residential, multi-family, office, commercial, industrial, and public facilities and roads. The City has enjoyed a solid reputation for municipal planning and growth management. The City has implemented a *Manufacturing Master Plan* whereby an administrative Manufacturing Strategy Team has been created to promote business retention and recruitment in non-automotive high-tech industries. An *Industrial Facilities Tax Abatement Program* was also enhanced to encourage the high-tech firms to incorporate "green" initiatives into their building projects and businesses. Employment in the city has also become more diversified in terms of new industry and trained workers.

Due to continued assessment declines, 2011 taxable values for the average homeowner decreased 7 percent, resulting in a \$180 tax savings. The average homeowner's tax bill is now \$400 or 14.2 percent lower than four years ago and has dropped to its lowest level since 2002. City taxes now average less than \$70 per month for the typical home.

Sterling Heights is a vibrant community with homeowners choosing to reinvest and renovate existing homes as evidenced by the 489 permits issued for residential home additions and/or improvements. Despite the continuing tough economic climate, the City has seen an increase in the number of new residential construction permits (87) as compared to 2010 (70) and 2009 (14). The total number of residential permits in 2010/2011 represents an investment of over \$16.6 million.

The combination of established neighborhoods and contemporary subdivisions in the community provides housing options ranging from modest to upscale with values over \$500,000. The typical home in Sterling Heights for 2011/2012 has a taxable value of \$66,000, which equates to a market value of \$132,000. Last year, the total tax for that home in the Utica Community School District was \$2,317, while the total tax for that same home in the Warren Consolidated School District was \$2,783. Of the total tax dollars collected, the City only received \$900 from the average homeowner for a full line of city services. It is estimated that the total average tax for 2011/2012 will be \$2,154 and \$2,588, respectively. As a result, tax bills are now at their lowest level in 10 years.

Currently, more than 2,400 commercial and industrial businesses are located in Sterling Heights. Major principal taxpayers include Chrysler Group LLC, Ford Motor Company, Detroit News Agency, and General Dynamics. The existing economic development and redevelopment efforts have been aggressively enhanced as Sterling Heights continues to attract and retain business and industry.

Redevelopment opportunities have been actively pursued throughout the city including the following initiatives:

- ▶ The City continues to actively participate in the Mayors Automotive Coalition (MAC), a national organization whose goal is to support the domestic automotive industry and seek federal economic redevelopment tools for redeveloping closed facilities expeditiously.
- ▶ The Sterling Heights Automotive Task Force continued to do its part to preserve the strong auto industry within the city. Most recent efforts involved saving the Sterling Heights Assembly Plant (SHAP) from closure. Chrysler has purchased the facility out of bankruptcy and is reinvesting \$850 million for a state-of-the-art paint shop.
- ▶ A plan was developed to secure \$25 million in various road improvements funded mostly through federal stimulus funding.
- ▶ Redevelopment of the old TRW site was facilitated with BAE Systems, which is a \$50 million plus project creating over 500 new jobs.
- ▶ The City has worked closely with the U.S. Department of Housing and Urban Development (HUD) regarding its *Neighborhood Stabilization Program* (NSP), which provides targeted emergency assistance to state and local governments to acquire and redevelop foreclosed properties to prevent abandonment and blight within the community.
- ▶ The City has continued development of the newly established SmartZone business incubator in partnership with the Michigan Economic Development Corporation, Macomb County, and Oakland University to foster growth in startup companies and advanced manufacturing.

Sterling Heights continues to benefit from the expansion of current local employers, as well as additional retail and commercial developments. It is this impressive mix of commercial and industrial businesses that has created the City's enviable economic base and low millage rate.

PERFORMANCE MATTERS

The City's strengths continue to be exceptional strategic planning and benchmarking, as well as strong financial management, sound finances, moderately low tax rates, and low debt levels. It is with this goal of strong financial management in mind that several of this year's awards were received. Sterling Heights has earned nationwide recognition from the Government Finance Officers' Association (GFOA) for several city financial documents, including the *Distinguished Budget Award* for the 24th consecutive year and the *Certificate of Achievement for Excellence in Financial Reporting* for the 23rd consecutive year.

The City of Sterling Heights enjoys outstanding bond ratings from the following ratings agencies: "AAA" from Fitch, "Aa1" from Moody's, and "AA+" from Standard & Poor's. We are proud to report that these ratings are among the highest in the state.

We are working together to preserve and enhance our community during the State's worst economic climate in recent history. I would like to thank the Mayor and City Council, department directors, and employees for contributing to the success and sound financial position of the City. Finance & Budget Director Brian Baker, City Controller Leslie Reinhart, City Treasurer Jennifer Varney, and their staff are especially recognized for their teamwork, cooperation, and commitment to the principles of fiscal management and propriety. Special recognition is also extended to Management Services Specialist Mary Jo Dombrowski for her assistance with this report. Our mission is to do all that is possible to provide courteous and superior services through teamwork and innovation. We will also continue our efforts to balance high quality of life with low property taxes while maintaining the tradition of excellence on behalf of all.

Respectfully submitted,



Mark D. Vanderpool
City Manager

**Administration Building**

40555 Utica Rd. / P.O. Box 8009
Sterling Heights, MI / 48311-8009

[TEL](tel:586.446.5864) 586.446.CITY (2489) / [FAX](fax:586.276.4077) 586.276.4077

cityhall@sterling-heights.net / www.sterling-heights.net
www.facebook.com/cityofsterlingheights / www.twitter.com/sterling_hts

CITY COUNCIL

Mayor
Mayor Pro Tem
Councilwoman
Councilman
Councilwoman
Councilman
Councilwoman

Richard J. Notte
Michael C. Taylor
Deanna Koski
Joseph V. Romano
Maria G. Schmidt
Paul Smith
Barbara A. Ziarko

CITY MANAGER

Mark D. Vanderpool

November 23, 2011

Honorable Mayor, City Council, and Citizens
of the City of Sterling Heights
40555 Utica Road
P.O. Box 8009
Sterling Heights, MI 48311-8009

The Comprehensive Annual Financial Report (CAFR) of the City of Sterling Heights, Michigan (the "City") as of and for the year ended June 30, 2011 is hereby submitted. As required by City Charter and state laws, the basic financial statements as defined in the table of contents were audited by Plante & Moran, PLLC, certified public accountants. Their unqualified opinion follows this letter of transmittal. An unqualified opinion is the best opinion that an organization can receive on its financial statements. It indicates that the auditor's examination has disclosed no conditions that cause them to believe that the financial statements are not fairly stated in all material respects.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with City management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that fairly presents the financial position and results of operations of the governmental activities, business-type activities, the various funds and component units of the City of Sterling Heights, Michigan. All disclosures necessary to enable the reader to gain an understanding of the City activities have been included.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a management's discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Sterling Heights' MD&A can be found immediately following the report of the independent auditor.

In addition, during the current year, an audit was performed in accordance with the requirements of the Single Audit Act Amendments of 1996 (P.L. 104-156). The auditor's reports related specifically to the single audit are issued under separate cover.

The Reporting Entity and Services Provided

The City of Sterling Heights, Michigan has defined its financial reporting entity in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). The City includes all the funds, boards, commissions, and authorities that are controlled by or dependent upon the Mayor and City Council. Based upon these criteria, the Brownfield Redevelopment Authority, Corridor Improvement Authority, Economic Development Corporation, and Local Development Finance Authority have been included in this report.

The City provides a full range of municipal services including police and fire protection; refuse services; construction and maintenance of highways, streets and infrastructure; planning and zoning; library services; and recreational and cultural events. Additionally, water and sewer services are provided under an Enterprise Fund, with user charges set by the City Council to ensure adequate coverage of operating expenses.

Governmental Structure and Local Economy

Sterling Heights is a vibrant community with a strong sense of civic pride and determination by its community leaders. Located in the northwest quadrant of Macomb County, at 36.8 square miles, there are more than 395 miles of roadway in Sterling Heights, of which 349 miles are maintained by the City. City services are provided to 33,922 houses, 9,734 apartments, 6,691 condominiums, 1,691 mobile homes, and 2,472 commercial and industrial businesses. The 2011 estimated population for the City stands at 129,699, making Sterling Heights the fourth largest populated city in Michigan. As of August, the City currently has a 9.8 percent unemployment rate as compared to a statewide rate of 11.2 percent and a national average of 9.1 percent.

Incorporated July 1, 1968, the City operates under a Council-Manager form of government. Voters elect a mayor and a six-member City Council, who individually serve two-year terms. The mayor and City Council are the legislative body of the City, responsible for adoption and implementation of ordinances, policies, budget guidelines, and upholding the Charter. The city manager is appointed by the City Council as the chief administrative officer, who is responsible for daily operations and makes recommendations to the City Council.

The City has grown over the years to the point where less than 5 percent of its total land area is vacant. The most recent growth that took place in Macomb County largely occurred to the northeast. The M-53 highway running through the City and the M-59 highway bordering the City continue to provide a corridor of opportunity for redevelopment and enhancement of existing development.

There is no question that future years will be very challenging. Management and the City Council have appropriated \$4.5 million of General Fund reserves to be used for the current budget (fiscal year 2012). Continued property assessment declines will cause revenue to fall short of expenditures. Without continued labor savings, which account for the vast majority of our costs, future use of reserves will occur. It is management's goal to maintain quality core services, while continuing to achieve further cost containment. The City has adopted prudent and conservative financial policies, which will help guide us through the upcoming years.

Long-term Financial Planning

The City continues to rely on its five-year financial plan to make financial adjustments as needed. The plan enables administration to project fund balance given various assumptions based on changes in major revenue and expenditures. This plan has allowed the City to reduce its workforce by 106 positions since 2002 without any involuntary layoffs of personnel. Going forward, the plan will allow the City to further refine and implement its labor strategy and plan future staffing levels. This long-term labor strategy will allow the City to eliminate the present structural deficit caused by falling revenue. It will also allow the City to maintain core services, adequate reserves, and strong bond ratings.

Major Initiatives

The following were among the many activities and accomplishments to which both the elected officials and staff devoted their energies in fiscal year 2010-2011:

1. The City developed a 2012 budget that reflected a \$7.1 million decrease from the prior year due to a fourth year of falling property assessments and continued State funding cuts.
2. The City continued to review all open positions resulting in the elimination of an additional 31 full-time positions. City staffing is now at its lowest level since 1977. The City successfully negotiated 10 percent wage concessions from all but two of its closed union contracts. The City also began contract negotiations for its three open labor contracts, settling one contract and achieving a 15 percent savings.
3. The City implemented a number of programmatic changes to reduce expenditures including privatizing the police detention facility, adjusting new hire wage ranges, and utilizing part-time employees to replace full-time employees in the library, dispatch, parks and recreation, and facilities maintenance areas. The City also reorganized departments and staffing for enhanced property maintenance and economic development initiatives.
4. The City established the Macomb Area Communities for Regional Opportunities (MACRO) to explore further service-sharing arrangements with the County and surrounding communities.
5. By continuing to follow its long-term financial plan, the City maintained its superior AAA, Aa1, and AA+ bond ratings, which saves hundreds of thousands of dollars annually.

Major Initiatives for July 1, 2011 and Thereafter

1. The City will continue to seek labor savings in order to achieve its financial goal of maintaining long-term financial stability due to further planned property assessment declines that will lower tax revenue.
2. The City will continue to encourage and incentivize new investments in the community, while also ensuring replacement funding for personal property tax revenue.

3. The City will continue to review the consolidation, contracting out, and elimination of non-core City services to ensure the continuation of core, vital services.
4. The City will continue to pursue and evaluate service-sharing agreements with surrounding communities and other entities, including countywide consolidated dispatch.
5. The City will develop a strategic plan to ensure its road infrastructure is maintained in light of continued reductions in State gas tax revenue.

Budgeting and Internal Controls

The diverse nature of governmental operations and the necessity of assuring legal compliance preclude recording and summarizing all governmental financial transactions and balances in a single accounting entity. Therefore, the City's accounting system is organized and operated on a "funds basis." Each fund is a distinct, self-balancing accounting entity. The *Fund Organization Chart* on page xiv provides a list of funds used by the City.

An annual budget is adopted in accordance with the legal requirements set forth in the Uniform Budgeting Act, State of Michigan P.A. 621 of 1978. The City's budget is prepared on the modified accrual basis for governmental-type funds, and its accounting records are also maintained on that basis. Under modified accrual accounting, revenue is recorded when it is both measurable and available. Expenditures are recorded when a liability is incurred, except for interest on long-term debt and accrued leave time. The City's governmental fund types, such as the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds, are reported on the modified accrual basis. The City's Enterprise Funds, Internal Service Fund, and Pension and Other Retirement Benefits Trust Funds are reported on the full accrual basis, under which revenue is recorded when earned and expenses are recorded when incurred.

Also required under the Uniform Budgeting Act are budgetary controls. The objective of the budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City's governing body. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the department level for the General Fund, Special Revenue Funds, and certain Debt Service Funds. However, budgetary control is maintained by object class (line account) for all funds for internal accounting purposes. The City maintains this control through the use of an encumbrance system. As purchase orders are issued, corresponding amounts of appropriations are reserved by the use of encumbrances so that appropriations are not overspent. Budget transfers may be made within a budgetary center with approval of the Office of City Management. The City Council approves necessary transfers between budgetary centers or from fund balance periodically. In addition, the Office of City Management monitors department budgets on a monthly basis. Department directors and office managers must justify all variances.

The City relies on a sound system of internal controls over financial reporting and federal program compliance. A system of internal control has been established for the purpose of preventing or detecting errors, misappropriations of assets, and fraudulent financial reporting. The system of internal controls relies on the integrity of the people who work for the City.

Pension and Other Postemployment Benefits

The City has two Pension Trust Funds: the General Employees' Retirement System (GERS) created by City Charter, and the Police and Fire Retirement System (PFRS), created under Public Act 345 and collective bargaining agreements. An actuarial study determines the funding required by the City to meet its future benefit obligations. The actuarially determined value of assets available for benefits as of December 31, 2010 (the date of the most recent actuarial valuation) was \$119.1 million for GERS and \$185.8 million for PFRS. One method of assessing the financial strength of a pension fund is to compute the percentage of liabilities that have been funded. This percentage at December 31, 2010 was 99.6 percent for GERS compared to 106.2 percent at December 31, 2009; and 78.0 percent for PFRS compared to 84.9 percent at December 31, 2009. A separate tax is levied to provide for the City's police and fire annual pension contribution. In both pension systems, the valuation of assets decreased due to market declines. The City also provides postretirement healthcare benefits for retirees and their dependents. As of the end of the 2010 calendar year, there were a total of 480 retirees receiving these benefits. This fiscal year, we have made our actuarially recommended contribution to the trust fund, which was established to provide these benefits in the future. The City has also budgeted to fund 100 percent of the actuarially recommended contribution for retiree health care in the fiscal year 2012 budget as well.

Cash Management

It is the policy of the City to invest public dollars in a manner that will provide maximum security with the highest investment return, while meeting the City's daily cash flow demands and conforming to Public Act 20 of 1943 (as amended) and local ordinances. Idle cash in all funds, exclusive of the pension systems and the Retiree Medical Benefits Trust Fund, are invested in certificates of deposit, governmental obligations, pooled accounts, commercial paper, and bank trust accounts.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. In the state of Michigan, municipalities are not required to insure or collateralize bank deposits; however, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Risk Management

The City's risk management program is designed to protect financial and human resources in the most cost-effective manner possible. This is accomplished through exposure identification, risk evaluation, risk control, risk funding, and risk management administration. For Sterling Heights, there are six areas of risk management that receive the majority of attention: loss control and safety, property, liability, workers' compensation, employee benefits, and self-insurance administration.

The City of Sterling Heights, Michigan is a member of the Michigan Municipal Risk Management Authority (MMRMA). The MMRMA is a self-insured association with a membership of more than 300 local government units in Michigan. It provides risk management, claims administration, legal defense, and reinsurance services for its members.

Although the City self-insures many risks, excess insurance is purchased to protect against the financial effects of a catastrophic loss. Liability excess coverage provides up to \$15,000,000 of limits. Property coverage insures \$95.1 million of building, personal property, and vehicles. All buildings and contents are insured at replacement cost value. Liability and property self-insured retentions are \$500,000 and \$50,000, respectively. Excess insurance of workers' compensation is purchased at statutory levels, with a \$300,000 per occurrence self-insured retention. Reinsurance for the self-insured healthcare risk is purchased to limit City liability to \$250,000 per employee/contract per year. Healthcare expenditures account for the majority of all self-insurance expenditures. The short-term disability risk is fully self-insured and self-administered. Through a combination of self-insurance and insurance, the City has been able to provide the financial resources required to manage the various risks associated with a large city.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Sterling Heights, Michigan for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR), whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Sterling Heights, Michigan has received a Certificate of Achievement for the last 23 consecutive years (fiscal years 1988-2010). We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this Comprehensive Annual Financial Report was made possible by the efficient and dedicated service of the entire staff of the Office of Financial Services. I wish to express my sincere appreciation to each of them and to various employees from other offices for their cooperation and assistance. Appreciation is also expressed to the City Council and City Manager for their consistent support throughout the year in matters pertaining to the financial affairs of the City.

Respectfully submitted,



Brian S. Baker
Finance and Budget Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Sterling Heights
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

A handwritten signature in black ink.

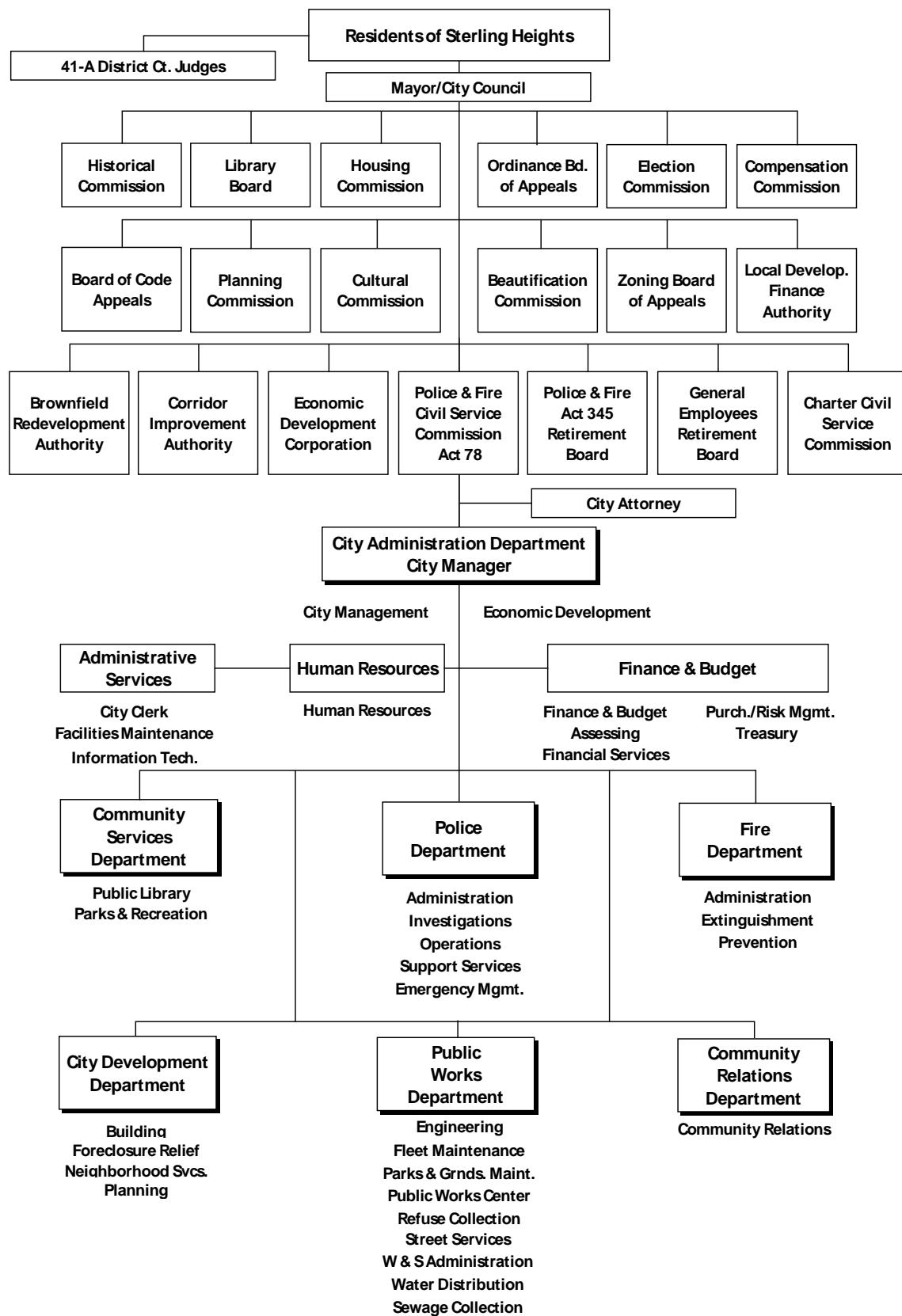
President

A handwritten signature in black ink.

Executive Director

City of Sterling Heights, Michigan

City Organization Chart



City of Sterling Heights, Michigan

List of Principal Officials

Title	Name
City Manager	Mark D. Vanderpool
Broadcast Services Manager	Michael Crimmins
Building Official	Michael Viazanko
Business Development Manager	Denice A. Gerstenberg
City Assessor	Matthew J. Schmidt
City Attorney	Jeffrey A. Bahorski
City Clerk/Assistant City Manager	Walter C. Blessed
City Development Director/City Planner	Donald A. Mende
City Engineer	Brent S. Bashaw
City Treasurer	Jennifer L. Varney
Community Relations Director	Steve Guitar
Community Services/Library Director	Tammy L. Turgeon
Controller	Leslie D. Reinhart
Economic Development Manager	Kasey Green
Facilities Maintenance Manager	Gary Schamehorn
Finance and Budget Director	Brian S. Baker
Human Resources Director	Kelton Winnega
Information Technology Manager	Steve Deon
Interim Fire Chief	Michael G. Deprez
Neighborhood Services Manager	Patricia Broadway
Parks and Recreation Manager	Kyle Langlois
Police Chief	Michael Reese
Public Works Director	Salvatore Conigliaro
Public Works Manager	James P. Buhlinger
Purchasing/Risk Manager	Mark Carufel

City of Sterling Heights, Michigan

Fund Organization Chart

Governmental Funds	
General *	Special Revenue
	Major Roads *
	Local Roads
	Energy Efficiency Community Block Grant
	Public Safety Forfeiture
	Community Development Block Grant
	(CDBG)*
	Neighborhood Stabilization
Debt Service	
Capital Projects	
General Drain	General Improvements *
Voted Tax General Obligation	Road Bond Construction *
Settlement Bond	Land and Water Conservation
Road Bond Debt Retirement*	
Limited Tax General Obligation	
Proprietary Funds	
Enterprise	Internal Service
Water and Sewer *	Self-insurance
Fiduciary Funds	
Trust	Agency
General Employees' Retirement System	Tax Collections
Police and Fire Retirement System	General Agency
Retiree Medical Benefits	
Component Units	
Economic Development Corporation	
Brownfield Redevelopment Authority	
Corridor Improvement Authority	
Local Development Finance Authority	

* Major funds under GASB 34

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit information, each major fund, and the aggregate remaining fund information of the City of Sterling Heights, Michigan (the "City") as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit information, each major fund, and the aggregate remaining fund information of the City as of June 30, 2011 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

The management's discussion and analysis, retirement system schedules of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, other supplemental information, statistical, and continuing disclosure sections, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical and continuing disclosure sections have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

During the year, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, as discussed in Note 1. As a result of this required implementation, fund balance classifications in the governmental fund financial statements have been changed to reflect the five new classifications under GASB Statement No. 54. In addition to the new fund balance classifications in the governmental fund financial statements, the Land and Water Conservation Fund is now being reported as a capital projects fund as a result of this required implementation.

Plante & Moran, PLLC

Clinton Township, MI
November 23, 2011

City of Sterling Heights, Michigan

Management's Discussion and Analysis

Overview of the Financial Statements

Our discussion and analysis of the City of Sterling Heights' financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2011. This narrative should be considered in conjunction with the additional information presented in the letter of transmittal found on pages v-x and is intended to serve as an introduction to the City of Sterling Heights' basic financial statements which begin on page 17.

Financial Highlights

- As a result of this year's operations, the City's overall net assets decreased by \$8.8 million or 2.3 percent. Net assets of our governmental activities decreased by \$5.5 million or 2.6 percent; net assets of our business-type activities decreased by \$3.3 million or 2.0 percent.
- Net assets for governmental activities decreased primarily due to depreciation exceeding capital asset additions resulting from a lack of funding available for investment in building and road improvements.
- The General Fund reported an increase in revenue of \$2.3 million or 2.7 percent due to a 1.9 mill tax levy adjustment. The tax adjustment raised \$9.0 million; however, this was offset by a third year of lower property tax assessments due to the statewide housing decline. In addition, 41-A District Court, engineering, and investment interest revenue declined. Total revenue in 2011 remains lower than amounts received in 2008. As a result, General Fund revenue has fallen short of expenditures for the past four years. Therefore, future use of reserves is anticipated.
- As a result of the City continuing to implement its long-term financial plan of partially offsetting tax revenue with strong economic development efforts, continued elimination of full-time positions, labor contract savings, as well as outsourcing and service sharing, the City earned a bond rating upgrade from Moody's and maintained its remaining two excellent bond ratings.
- Continued decline of state road funds and the loss of federal stimulus funds are impacting the City's ability to fund needed road repairs. State road funds received are lower than amounts received in 2003 even without adjusting for inflation.
- Despite growing long-term retirement costs, the City continues to fully fund its retirement systems. The City has been able to maintain a diversified tax base with low tax and water and sewer rates while continuing to provide effective core services to residents and business customers.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Government-wide Financial Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets, the difference between the City's assets and liabilities, are one way to measure the City's financial health.

The City's government-wide financial statements are divided into three categories:

- **Government Activities** - Most of the City's basic services are included here such as general government, 41A District Court, public safety, public works, and recreation and culture. Property taxes, state-shared revenue, charges for services, and grants provide most of the funding.
- **Business-type Activities** - The City charges fees to customers to cover costs of providing water and sewer services.
- **Component Units** - The City includes four other separate entities in its report: the Brownfield Redevelopment Authority, the Corridor Improvement Authority, the Economic Development Corporation, and the Local Development Finance Authority, for which the City is financially accountable. Although legally separate, these "component units" are important because the City exercises control over them. Although the Sterling Heights Building Authority is also legally separate, it functions as a department of the City and therefore has been included as an integral part of the primary government.

The City as a Whole

The City's combined net assets decreased 2.3 percent from a year ago, falling from \$378.5 million to \$369.7 million. A review of the governmental activities, separate from the business-type activities, shows a decrease of \$5.5 million in net assets, or 2.6 percent, during fiscal year 2011. This decrease was largely attributable to lower revenue due to the one-time receipt of insurance proceeds last fiscal year, as well as increased actuarially required retirement contributions, which rose by \$1.9 million or 11.6 percent.

As of June 30, 2011, unrestricted net assets for governmental activities, which is the part of net assets available to finance day-to-day operations and future growth, was \$31.7 million. This represents a \$2.9 million decrease as compared to June 30, 2010. The major factors contributing to this decrease were continued housing decline and lower state road funding, resulting in a combined \$2.0 million use of reserves in the General Fund and Local Road Fund.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

The business-type activities experienced a decrease in net assets of \$3.3 million. This decrease was primarily due to lower contributions from developers by \$2.1 million, \$0.5 million in new interest expense from district-wide sewer projects, and \$0.4 million in lost investment earnings due to declining rates. On an operating basis, the fund was very close to breaking even, excluding depreciation expense, as the City does not use its operating rates to fund depreciation expense. The decrease in net assets flowed through the balance sheet of the business-type activities as an increase in restricted net assets of \$0.1 million, which was offset by a decrease in capital assets net of debt of \$2.1 million, and the \$1.3 million use of unrestricted net assets.

In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of June 30, 2011 to the prior year:

	Governmental		Business-type		Total	
	Activities		Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets						
Current assets	\$ 50.6	\$ 52.9	\$ 28.9	\$ 30.2	\$ 79.5	\$ 83.1
Noncurrent assets:						
Restricted assets and other assets	6.5	6.8	8.4	8.3	14.9	15.1
Capital assets	<u>195.7</u>	<u>202.0</u>	<u>162.8</u>	<u>134.7</u>	<u>358.5</u>	<u>336.7</u>
Total assets	252.8	261.7	200.1	173.2	452.9	434.9
Liabilities						
Current liabilities	9.3	8.3	4.3	4.2	13.6	12.5
Long-term liabilities	<u>35.5</u>	<u>39.9</u>	<u>34.1</u>	<u>4.0</u>	<u>69.6</u>	<u>43.9</u>
Total liabilities	44.8	48.2	38.4	8.2	83.2	56.4
Net Assets						
Invested in capital assets - Net of related debt	166.9	169.2	128.9	131.0	295.8	300.2
Restricted	9.4	9.7	8.4	8.3	17.8	18.0
Unrestricted	<u>31.7</u>	<u>34.6</u>	<u>24.4</u>	<u>25.7</u>	<u>56.1</u>	<u>60.3</u>
Total net assets	\$208.0	\$213.5	\$161.7	\$165.0	\$369.7	\$378.5

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets (in millions of dollars) as of June 30, 2011 and the prior year:

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenue						
Charges for services	\$ 10.8	\$ 11.1	\$ 28.2	\$ 25.1	\$ 39.0	\$ 36.2
Operating grants and contributions	9.1	9.7	-	-	9.1	9.7
Capital grants and contributions	1.8	1.1	1.5	2.9	3.3	4.0
Property taxes	59.2	56.8	-	-	59.2	56.8
State-shared revenue	9.0	9.0	-	-	9.0	9.0
Interest	0.7	1.1	0.5	0.9	1.2	2.0
Insurance proceeds	-	16.3	-	-	-	16.3
Other nonprogram revenue	2.0	1.8	-	-	2.0	1.8
Total revenue	92.6	106.9	30.2	28.9	122.8	135.8
Program Expenses						
General government	8.0	8.8	-	-	8.0	8.8
41A District Court	3.5	3.4	-	-	3.5	3.4
Public safety	53.7	52.7	-	-	53.7	52.7
Public works	26.1	25.3	-	-	26.1	25.3
Recreation and culture	5.6	5.7	-	-	5.6	5.7
Interest on long-term debt	1.2	1.1	-	-	1.2	1.1
Water and sewer	-	-	33.5	30.9	33.5	30.9
Total program expenses	98.1	97.0	33.5	30.9	131.6	127.9
(Decrease) Increase in Net Assets	(5.5)	9.9	(3.3)	(2.0)	(8.8)	7.9
Net Assets - Beginning of year	<u>213.5</u>	<u>203.6</u>	<u>165.0</u>	<u>167.0</u>	<u>378.5</u>	<u>370.6</u>
Net Assets - End of year	<u>\$208.0</u>	<u>\$213.5</u>	<u>\$161.7</u>	<u>\$165.0</u>	<u>\$369.7</u>	<u>\$378.5</u>

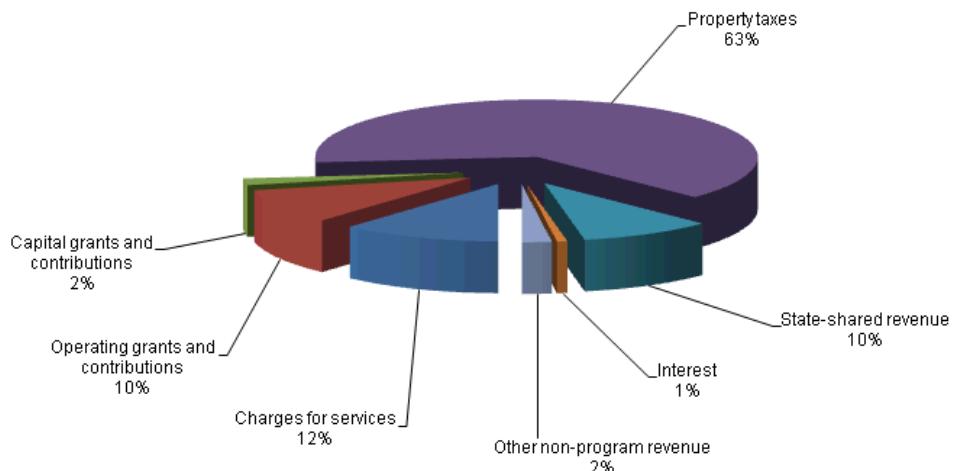
Governmental Activities

During fiscal year 2011, the City's total governmental revenue decreased by \$14.3 million. This decrease was due to the prior year's receipt of \$16.3 million in one-time insurance proceeds. Property tax revenue increased by \$2.4 million due to a 1.9 mill tax levy adjustment which was partially offset by a third year of property assessment declines. Decreases in court, engineering, and investment income were offset by slightly higher building revenue.

City of Sterling Heights, Michigan

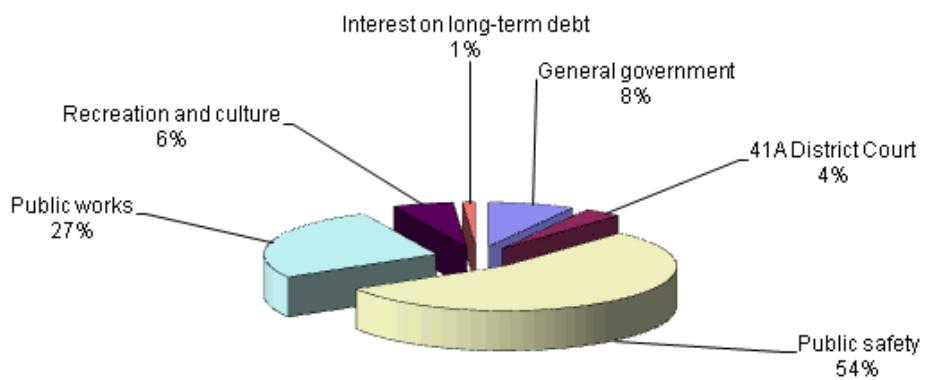
Management's Discussion and Analysis (Continued)

Revenue by Source - Governmental Activities



Expenses increased by \$1.1 million or 1.1 percent over the previous fiscal year. Contributing to the increase in expenses were higher required contributions to the police and fire retirement system of \$1.2 million, increased retiree medical costs of \$0.9 million, and increased self-insurance medical claims of \$0.7 million. These increases were partially offset by savings from the reduction of 21 full-time staff positions through attrition, employee wage and benefit concessions including higher employee defined benefit contributions, and lower debt payments as the Judicial Services Center debt was paid off in the prior year.

Program Expenses - Governmental Activities



During the year, the City continued meeting the actuarial required contributions for both defined benefit pension systems and the retiree medical benefits trust fund. This is important for the City since future taxpayers should not be required to fund benefit payments that are currently earned. Meanwhile, the City is actively working to lower future retirement liabilities as labor contracts expire. The City was able to achieve significant savings with the Court Clerical contract which is the first open labor contract to be settled.

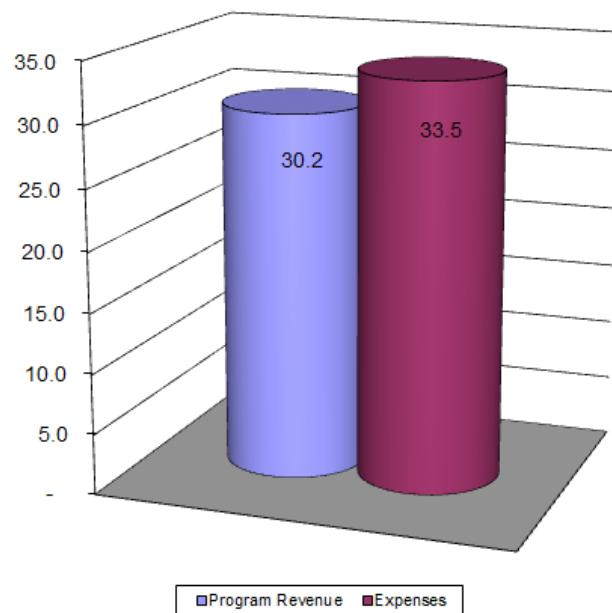
City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities are recorded in the Water and Sewer Fund. The City provides water, which is purchased from the City of Detroit Water System, to nearly all residents. Water rates charged by the City of Detroit for fiscal year 2011 increased by 8.6 percent. Lower consumption levels due to the economy over the past several years caused the City to pass on a 9.9 percent water increase to its customers. The City provides sewage treatment to 99 percent of its residents through the Macomb County Sewage District. The City passed on a 9.9 percent sewage rate adjustment to its customers, which was the same as the increase charged by Macomb County. During fiscal 2011, the water and sewer system experienced a 3.5 percent increase in water purchased from the City of Detroit. However, volumes are still down over 20.0 percent since 2005, which is consistent with Michigan's overall economy. In addition, one full-time vacant position was eliminated in the fund, which saved \$50,000. In 2011, water and sewer lines contributed by developers to the City decreased by \$2.1 million. This, coupled with lower investment earnings (\$0.4 million), contributed to a higher use of net assets.

Revenue and Expenses - Business-type Activities



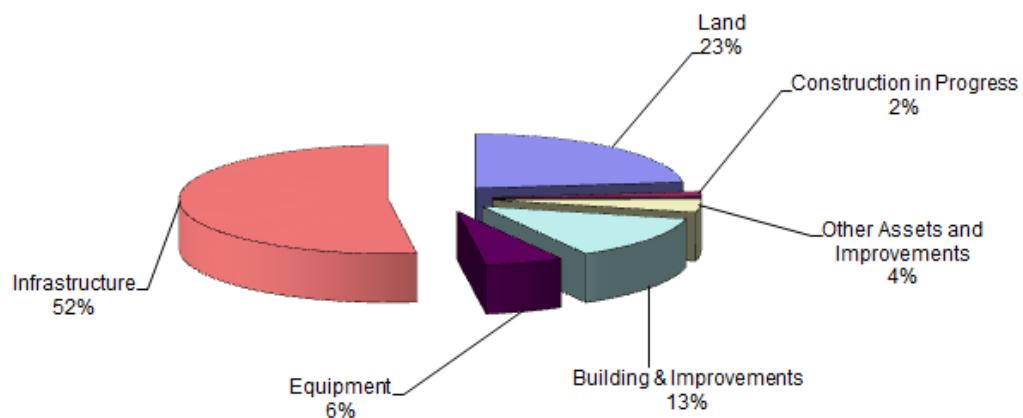
City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

At the end of fiscal year 2011, the City had \$295.8 million invested (net of related debt) in a wide range of capital assets, including land, buildings, police and fire equipment, computer equipment, infrastructure assets (roads, bridges, sidewalks, and storm drains) and water and sewer lines. The value of the infrastructure assets (including water and sewer lines), net of depreciation, contained in this report is \$253.9 million and \$237.1 million for fiscal years 2011 and 2010, respectively (see Note 4 of the notes to the basic financial statements for additional information).

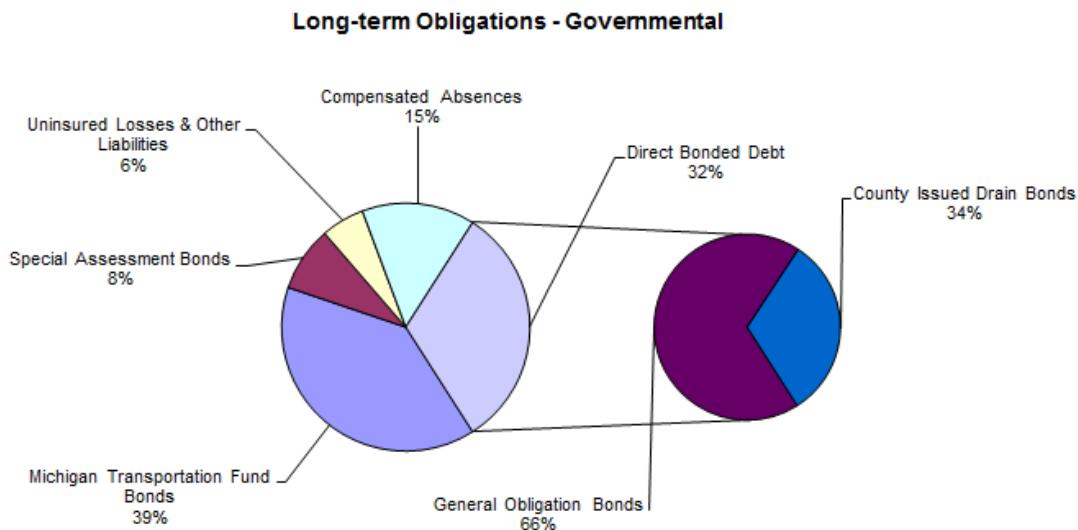
Capital Assets (Net of Depreciation) - Governmental



The City's general obligation bonds maintained their ratings from Standard & Poor's (AA+) and Fitch (AAA) while Moody's increased the City's bond rating from Aa2 to Aa1. No new direct debt was issued by the City during the fiscal year. However, during the year, Macomb County issued indirect debt for the various repairs and the acquisition of the Macomb Interceptor Drain (MID) drainage district from the City of Detroit which will be financed through water and sewer rates. Debt service for all outstanding direct debt during fiscal year 2011 consisted of \$4.0 million in principal and \$1.2 million in interest after adjustments for recognition of amortized premiums (see Note 7 of the notes to the basic financial statements for additional information).

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)



The ratio of net general bonded debt to assessed valuation and the amount of net bonded debt per capita are as follows:

	2010	2011
Net debt outstanding (direct and indirect)	\$ 17,157,531	\$ 39,334,300
Ratio of net debt outstanding to total taxable value	0.2886%	0.6619%
Net debt outstanding per capita	\$ 133.45	\$ 303.18

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting tools the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law or bond covenants. The City Council also established other funds to control and manage money for particular purposes. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

- **Governmental Funds** - Most of the City's basic services are included in governmental funds, which focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower, it is useful to compare this information with similar information presented for governmental activities in the government-wide financial statements. This comparison may allow the reader to better understand the long-term impact of the City's short-term financing decisions. Both the balance sheet and the statement of revenue, expenditures, and changes in fund balances for the governmental funds provide a reconciliation to facilitate this comparison between governmental funds and government activities.
- **Proprietary Funds** - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary fund reporting, like government-wide statements, provide both short-term and long-term financial information.
- **Fiduciary Funds** - The City is responsible for ensuring the assets in these funds are used for their intended purposes. Therefore, we exclude these activities from the government-wide financial statements because the City cannot use these assets to finance its operations. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fund financial statements begin on pages 20-21 and provide detailed information on the most significant funds - not the City as a whole. The City's major funds for 2011 include the General Fund, Major Roads Fund, Community Development Block Grant Fund, Road Bond Debt Retirement Fund, General Improvement Fund, and Road Bond Construction Fund.

The major components of revenue in these funds are property taxes and state sources. The major components of expenditures in these funds are public safety (police and fire) and public works. Expenditures (including transfers) exceeded revenue in these funds by \$1.8 million. In the General Fund, revenue increased by \$2.3 million with property tax revenue providing \$2.1 million of the increase. Expenditures increased by \$1.1 million with most of the increase in public safety attributable to higher actuarial required pension costs. Many of the other city department expenditures declined. The Major Roads Fund net increase was \$0.3 million, which will be used to maintain roads. The Road Bond Debt Retirement Fund net change was nearly flat. The General Improvement Fund net decrease was a \$0.4 million use of fund balance. The Road Bond Construction Fund net decrease was \$0.2 million based on the use of prior year's proceeds from bonds sales. The Community Development Block Grant Fund is a reimbursement-based grant fund.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, City administration and the City Council monitor and amend the budget to take into account unanticipated events that occur during the year. The budget was amended twice during fiscal 2011. Final budgeted expenditures were \$1.5 million or 1.6 percent lower than the original budget due primarily to personnel savings from the 31 full-time positions that were held vacant during the fiscal year. Final budgeted revenue was \$0.1 million higher than the original budget.

At year end, actual General Fund expenditures came in at 99.6 percent or \$0.4 million under budget due to continued department operational efficiencies. General Fund revenue came in at 99.7 percent or \$0.3 million under budget as a result of lower tax revenue and charges for services which were offset by higher state revenue.

Current Economic Conditions

While the City continues to carry out its long-term financial plan, there remains a structural funding problem facing communities in Michigan. The three major funding sources for cities are property taxes, state-shared revenue, and State road funding. All three revenue sources have shown significant declines over the past several years with no increases in funding expected for at least the next several years. Despite a reduction of 106 positions since 2002, continued expenditure reductions will be needed to offset the revenue shortfall. The city government is a service to the City residents and therefore, its primary costs are personnel related. Through the use of long-term planning, the City will continue to balance its budget. Amid the steeply declining revenue affecting all communities, the City continues to review all possible expenditure savings options as it prepares future budgets and in negotiating current and future labor contracts.

Assessments Causing Lower Property Tax Bills and Related Revenue

Property assessments have declined in the past four years and continued decreases are anticipated for 2012 and beyond. As a result, property taxes, which account for 66.0 percent of the City's General Fund budget, have shown a dramatic decrease. For 2012, tax revenue has fallen to its lowest level in six years. Residential property taxable values have decreased by 22.0 percent over the past four years. The City's total tax base has now fallen back to its lowest level since 2003, resulting in a cumulative \$27.5 million loss of property tax revenue when compared to historic inflationary increases.

Even with the prior year 1.9 mill adjustment, the vast majority of property owners are paying less in taxes. In fact, the average property tax bill is now \$400 or 14.2 percent lower than four years ago and the lowest since 2002. In other words, the average property tax bill for a resident residing in either the Utica Community or the Warren Consolidated School District is now lower than it was 10 years ago. The City has continued to maintain one of the lowest tax rates in the state with 85.0 percent of cities having a higher tax rate.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Further assessment declines will occur in 2012 and beyond, resulting in continued declining revenue to the City with even greater tax savings to residents. Even when future property values stabilize, Proposal A will detrimentally limit increases to the rate of inflation such that the City will permanently lose property tax dollars.

State Revenue-sharing Cuts

The City's second largest revenue source is state revenue sharing, which is distributed to communities from sales tax receipts collected by the State of Michigan. Revenue sharing previously represented 20.0 percent of the City's budget while it currently represents 11.0 percent as the State has cut revenue sharing payments for the past 10 years with the exception of the 2010 census adjustment. For 2012, the State has cut statutory revenue sharing by 33.0 percent or \$0.3 million. The City now receives less from the State than it did 17 years ago (1994) despite a growing population and inflationary increases. The City anticipates that State budget deficits will cause additional reductions in revenue sharing to occur.

Road Funding

Gas tax receipts from the State have fallen due to higher gas prices and the use of more fuel-efficient vehicles, which have lessened gas consumption and the corresponding tax revenue. The State's gas tax of 19 cents per gallon has increased once in the past 27 years. As a result, the City has cumulatively lost \$5.0 million in State gas tax revenue since 2004. The City receives less today than it did in 2003. Since the General Fund no longer has the ability to subsidize the road funds and as federal stimulus funds are no longer available, the City's road funds have significantly limited availability for road construction and maintenance.

Expenditure Savings

In 2011, General Fund expenditures increased by \$1.1 million or 1.3 percent - compared to the \$0.8 million or 0.9 percent decrease in the prior year. Excluding increased pre-funding of retiree medical obligations and higher police and fire pension fund contributions, expenditures would have decreased by \$0.5 million or 0.6 percent. The City achieved wage and benefit concessions from 12 closed labor contracts which saved \$1.3 million compared to contractually obligated amounts.

As a result of the declining revenue, the City developed a proactive multi-faceted financial strategy to successfully navigate these financial challenges. The City has implemented numerous budgeted savings and limited revenue enhancement measures over the past several years. The City has eliminated 106 vacant full-time budgeted positions or 16.0 percent of its workforce since 2002, saving \$7.9 million annually.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

The City no longer offers fixed pensions for general employees. Based on employee and resident suggestions, the City has saved money by limiting take-home vehicles, eliminating memberships, training, cell phones, subscriptions, overtime, and building energy usage. The City has dramatically reduced overtime costs, has contracted out the police detention facility, and is currently using part-time custodial staff in lieu of full-time. The City continues to downsize, pursue service-sharing agreements with surrounding communities, and outsource services where possible. Today, nearly 75.0 percent of the budget is directed toward only the City's largest departments including police, fire, and public works.

Reducing City Staffing

Given that 83.1 percent of the City budget is personnel costs, the City has had to eliminate lower priority positions. The City is now budgeted to have 543 full-time employees - the lowest number in 35 years or since 1977. The City's employee per resident ratio has decreased by nearly 32.0 percent. Our ratio of full-time employees per 1,000 residents is well below any comparable city in Michigan and is lower than 89.0 percent of cities across the country. Staffing will fall further over the next fiscal year. Over the years, staffing has primarily decreased at City Hall and public works as resources have been redirected to public safety.

For fiscal year 2012, the City has achieved 10.0 percent wage concessions over two years from most bargaining units. In addition, the first open labor contract has been settled which resulted in a 15.0 percent savings. The City has also achieved significant labor concessions resulting in healthcare savings of \$1.0 million annually and \$20.0 million actuarially over a number of years by reducing retiree healthcare benefits. However, due to continued revenue declines, the City will be seeking additional labor savings from its collective bargaining units in order to lessen the use of fund balance reserves and to maintain core services while continuing to maintain lower tax bills for all taxpayers. So far, the City has been able to avoid layoffs; however, it is no longer known if this strategy can continue.

Use of Fund Balance

Despite expenditure savings, the City has needed to use its fund balance. General Fund reserves have now fallen for the past four fiscal years. With a budgeted \$4.5 million use of reserves for 2012, without additional savings, reserves will total \$6.5 million or the equivalent of less than one month of operations at fiscal year end. The City has avoided reducing fund balance to a level that would compromise its superior AAA bond rating, which saves hundreds of thousands of dollars in annual interest costs.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Future Actions Needed for 2012 and Beyond

Due to the City's cost-cutting efforts, the City is better positioned than most communities. Regularly updating the City's financial forecast allowed the City to take corrective action early on. The City has low debt levels, high bond ratings, and excellent services funded by low property taxes and water and sewer rates.

The City does have fewer fund balance reserves than many communities, as the City has not levied higher taxes unnecessarily to build up excess reserves. The City continues to have one of the lowest property tax bills and tax rates of any Detroit area city. Most other cities not only have higher tax rates, but also have increased their rates over the years. The City's property tax millage rate has fallen from 13.38 mills in 1988 to 12.68 mills currently - a decrease of 5.2 percent. The millage rate is down 0.7 mills since 1988, saving the average resident \$3,216 in taxes over the 24-year period.

The City continues to have one of the lowest property tax bills of any Detroit area city. The City also continues to have the lowest residential water and sewer rates of any city in the state with more than 25,000 residents.

The City Council and City administration will further develop the City's financial strategy and continue fiscal responsibility while maintaining as many core services as possible. In the meantime, the City will keep residents informed and ensure they continue to receive maximum value for their tax dollars.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the resources it receives. If you have any questions about this report or need additional information, we invite you to contact the administration offices at City Hall.

City of Sterling Heights, Michigan

Statement of Net Assets

June 30, 2011

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 20,747,719	\$ 887,225	\$ 21,634,944	\$ 45,320
Investments - At fair value (Note 3)	21,085,319	19,068,082	40,153,401	-
Receivables:				
Customers	-	7,730,086	7,730,086	186
Special assessments - Current	198,174	-	198,174	-
Accrued interest	292,857	116,928	409,785	-
Other	1,013,581	-	1,013,581	-
Internal balances	(840,293)	840,293	-	-
Due from other governmental units	3,898,859	-	3,898,859	53,250
Prepaid costs and other assets	3,429,460	-	3,429,460	-
Inventories	787,093	253,789	1,040,882	-
Special assessments (Note 6)	2,734,412	-	2,734,412	-
Restricted assets (Note 8)	1,975,407	8,369,375	10,344,782	-
Loans receivable (Note 9)	1,785,525	-	1,785,525	-
Capital assets:				
Nondepreciable (Note 4)	48,803,391	9,050,546	57,853,937	1,209,334
Depreciable - Net (Note 4)	146,853,771	153,798,712	300,652,483	1,661,328
Total assets	252,765,275	200,115,036	452,880,311	2,969,418
Liabilities				
Accounts payable	2,552,987	4,047,134	6,600,121	22,612
Accrued and other liabilities	3,446,482	229,351	3,675,833	-
Provision for uninsured losses and liabilities (Note 10)	614,927	-	614,927	-
Due to other governmental units	51,890	-	51,890	10,680
Unearned revenue (Note 6)	2,608,307	47,170	2,655,477	186
Noncurrent liabilities (Note 7):				
Due within one year	5,046,032	1,179,561	6,225,593	-
Due in more than one year	30,481,593	32,957,287	63,438,880	-
Total liabilities	44,802,218	38,460,503	83,262,721	33,478
Net Assets				
Invested in capital assets - Net of related debt	166,882,162	128,950,328	295,832,490	2,870,662
Restricted:				
Roads	3,988,571	-	3,988,571	-
Public safety	474,573	-	474,573	-
Debt service	2,974,501	-	2,974,501	-
County drains (Note 8)	1,975,407	154,996	2,130,403	-
Ordinance requirements (Note 8)	-	8,214,379	8,214,379	-
Unrestricted	31,667,843	24,334,830	56,002,673	65,278
Total net assets	\$ 207,963,057	\$ 161,654,533	\$ 369,617,590	\$ 2,935,940

City of Sterling Heights, Michigan

	Program Revenue			
	Expenses	Operating Grants		Capital Grants
		Charges for Services	and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 8,011,940	\$ 2,906,715	\$ 8,222	\$ 468,577
41A District Court	3,523,447	2,888,076	154,739	-
Public safety	53,740,479	1,695,612	101,890	487,411
Public works	26,062,500	2,295,345	8,351,943	826,125
Recreation and culture	5,617,090	982,981	474,440	27,804
Interest on long-term debt	1,192,797	-	-	-
Total governmental activities	98,148,253	10,768,729	9,091,234	1,809,917
Business-type activities - Water and sewer	33,562,610	28,222,756	-	1,459,851
Total primary government	\$ 131,710,863	\$ 38,991,485	\$ 9,091,234	\$ 3,269,768
Component units:				
Economic Development Corporation	\$ 11,256	\$ -	\$ 6,000	\$ -
Brownfield Redevelopment Authority	43,548	-	48,860	-
Corridor Improvement Authority	190,327	-	-	-
Local Development Finance Authority	272,289	-	208,475	49,449
Total component units	\$ 517,420	\$ -	\$ 263,335	\$ 49,449
General revenue:				
Property taxes				
Unrestricted state revenue-sharing program				
Interest				
Other nonprogram generated revenue				
Total general revenue				

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

Statement of Activities
Year Ended June 30, 2011

Net (Expenses) Revenue and Changes in Net Assets				
Primary Government				
Governmental Activities	Business-type Activities	Total	Component Units	
\$ (4,628,426)	\$ (4,628,426)	\$ -		
(480,632)	(480,632)			
(51,455,566)	(51,455,566)			
(14,589,087)	(14,589,087)			
(4,131,865)	(4,131,865)			
<u>(1,192,797)</u>	<u>(1,192,797)</u>	<u></u>		
(76,478,373)	(76,478,373)			
<u>-</u>	<u>(3,880,003)</u>	<u>(3,880,003)</u>	<u>-</u>	
(76,478,373)	(3,880,003)	(80,358,376)		
-	-	-		(5,256)
-	-	-		5,312
-	-	-		(190,327)
<u>-</u>	<u>-</u>	<u>-</u>		<u>(14,365)</u>
-	-	-		(204,636)
59,196,747	-	59,196,747		
9,057,434	-	9,057,434		
707,426	502,048	1,209,474		146
<u>1,950,435</u>	<u>-</u>	<u>1,950,435</u>		<u>-</u>
<u>70,912,042</u>	<u>502,048</u>	<u>71,414,090</u>		<u>146</u>
(5,566,331)	(3,377,955)	(8,944,286)		(204,490)
<u>213,529,388</u>	<u>165,032,488</u>	<u>378,561,876</u>		<u>3,140,430</u>
<u>\$ 207,963,057</u>	<u>\$ 161,654,533</u>	<u>\$ 369,617,590</u>		<u>\$ 2,935,940</u>

City of Sterling Heights, Michigan

	General Fund	Major Roads	Community Development Block Grant
Assets			
Cash and cash equivalents (Note 3)	\$ 8,676,928	\$ 1,259,171	\$ 98
Investments - At fair value (Note 3)	7,576,655	749,369	-
Receivables:			
Special assessments:			
Current	-	-	-
Deferred	-	-	-
Accrued interest	52,476	90	-
Other	1,013,581	-	-
Prepaid costs and other assets	181,772	61,000	-
Due from other funds (Note 5)	196,324	-	-
Due from other governmental units	870,572	806,874	133,555
Inventories	679,677	-	-
Restricted assets (Note 8)	-	-	-
Rehabilitation loans (Note 9)			1,785,525
Total assets	<u>\$ 19,247,985</u>	<u>\$ 2,876,504</u>	<u>\$ 1,919,178</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 1,507,063	\$ 100,420	\$ 104,097
Accrued and other liabilities	3,221,649	10,000	-
Due to other funds (Note 5)	2,544,202	75,998	29,556
Due to other governmental units	51,890	-	-
Deferred revenue (Note 6)	931,965	-	1,785,525
Total liabilities	8,256,769	186,418	1,919,178
Fund Balances			
Nonspendable:			
Inventory	679,677	-	-
Prepaid costs	181,772	61,000	-
Restricted for:			
Road improvements	-	2,629,086	-
Public safety	-	-	-
Debt Service	-	-	-
Committed - Park acquisitions and improvements	-	-	-
Assigned to:			
Debt Service	608,680	-	-
Economic development	33,930	-	-
Other capital projects	317,060	-	-
Significant encumbrances	20,230	-	-
Use of next year's fund balance	4,520,380	-	-
Unassigned	4,629,487	-	-
Total fund balances	<u>10,991,216</u>	<u>2,690,086</u>	<u>-</u>
Total liabilities and fund balances	<u><u>\$ 19,247,985</u></u>	<u><u>\$ 2,876,504</u></u>	<u><u>\$ 1,919,178</u></u>

Governmental Funds
Balance Sheet
June 30, 2011

Road Bond Debt Retirement	General Improvements	Road Bond Construction	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 139,130	\$ 1,362,486	\$ 529,421	\$ 1,265,731	\$ 13,232,965
-	499,498	-	499,498	9,325,020
149,195	14,844	-	34,135	198,174
2,536,321	27,417	-	170,674	2,734,412
137,982	2,608	122	12,424	205,702
-	-	-	-	1,013,581
-	-	294,680	27,570	565,022
-	-	-	1,269	197,593
-	320,975	-	573,426	2,705,402
-	-	-	107,416	787,093
-	1,975,407	-	-	1,975,407
-	-	-	-	1,785,525
\$ 2,962,628	\$ 4,203,235	\$ 824,223	\$ 2,692,143	\$ 34,725,896
\$ -	\$ 54,224	\$ -	\$ 389,164	\$ 2,154,968
-	20,253	66,995	-	3,318,897
-	12,225	-	78,545	2,740,526
-	-	-	-	51,890
2,536,321	2,002,824	-	170,736	7,427,371
2,536,321	2,089,526	66,995	638,445	15,693,652
-	-	-	107,416	787,093
-	-	294,680	-	537,452
-	-	462,548	726,263	3,817,897
-	-	-	474,573	474,573
426,307	-	-	11,873	438,180
-	-	-	733,573	733,573
-	-	-	-	608,680
-	-	-	-	33,930
-	1,505,029	-	-	1,822,089
-	-	-	-	20,230
-	608,680	-	-	5,129,060
-	-	-	-	4,629,487
426,307	2,113,709	757,228	2,053,698	19,032,244
\$ 2,962,628	\$ 4,203,235	\$ 824,223	\$ 2,692,143	\$ 34,725,896

City of Sterling Heights, Michigan

Governmental Funds **Reconciliation of Fund Balances to the Statement of Net Assets** **June 30, 2011**

Total Fund Balances of Governmental Funds	\$ 19,032,244
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
Certain receivables are expected to be collected over several years in the General Fund, special revenue funds, and debt service funds	2,843,657
Receivables related to state-shared revenue are reported in the statement of net assets at the time they are earned, without regard to timeliness of remittance by the State	1,193,457
Restricted assets held by Macomb County to be used over several years and which are not available to pay for current year expenditures	1,975,407
Capital assets used in governmental activities are not financial resources and are not reported in the funds	195,657,162
Long-term liabilities not due and payable in the current period are not reported in the funds	(28,775,000)
Compensated absences that are not requested prior to fiscal year end are not payable in the current period and are not included in the funds	(5,326,743)
Bond premiums are amortized over the life of the bonds, while recognized as an other financing source in the funds when received	(127,585)
Internal service fund is included as part of governmental activities	<u>21,490,458</u>
Net Assets of Governmental Activities	<u>\$ 207,963,057</u>

City of Sterling Heights, Michigan

	General Fund	Major Roads	Community Development Block Grant	Road Bond Debt Retirement
Revenue				
Property taxes	\$ 57,562,445	\$ -	\$ -	\$ -
Fees and permits	1,438,197	-	-	-
Federal sources	126,904	-	690,018	-
State and local sources	10,047,330	5,012,466	-	-
Fines and forfeitures	3,353,875	-	-	-
Charges for services	8,583,882	-	-	-
Interest income	262,825	6,589	-	4,031
Special assessments	-	-	-	151,221
Rental income	1,685,041	-	-	-
Cable revenue	1,950,435	-	-	-
Other	931,784	193,635	-	156,478
Total revenue	85,942,718	5,212,690	690,018	311,730
Expenditures				
Current:				
General government	8,613,941	-	-	-
41A District Court	3,246,811	-	-	-
Public safety	50,843,730	-	-	-
Public works	16,179,351	1,947,493	278,818	-
Recreation and culture	4,603,108	-	-	-
General expenditures	2,519,544	-	-	1,600
Capital outlay	-	525,344	83,641	-
Debt service	-	-	327,559	2,733,379
Total expenditures	86,006,485	2,472,837	690,018	2,734,979
Excess of Revenue (Under) Over Expenditures	(63,767)	2,739,853	-	(2,423,249)
Other Financing Sources (Uses)				
Interfund transfers in	-	-	-	2,480,000
Interfund transfers out	(1,473,940)	(2,480,000)	-	-
Total other financing (uses) sources	(1,473,940)	(2,480,000)	-	2,480,000
Net Change in Fund Balances	(1,537,707)	259,853	-	56,751
Fund Balances - Beginning of year	12,528,923	2,430,233	-	369,556
Fund Balances - End of year	\$ 10,991,216	\$ 2,690,086	\$ -	\$ 426,307

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2011

General Improvements	Road Construction	Bond Construction	Other Governmental Funds	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 1,482,763	\$ 59,045,208		
-	-			1,438,197	
815,656	-	1,452,438		3,085,016	
187,776	-	1,937,162		17,184,734	
-	-			3,353,875	
-	-			8,583,882	
11,922	3,337	19,718		308,422	
17,942	-	34,135		203,298	
-	-			1,685,041	
-	-			1,950,435	
168,891	-	75,417		1,526,205	
1,202,187	3,337	5,001,633		98,364,313	
-	-			8,613,941	
-	-			3,246,811	
-	-	85,691		50,929,421	
-	-	2,629,159		21,034,821	
-	-			4,603,108	
-	-	19,729		2,540,873	
1,942,831	242,465	2,072,881		4,867,162	
-	-	2,130,117		5,191,055	
1,942,831	242,465	6,937,577		101,027,192	
(740,644)	(239,128)	(1,935,944)		(2,662,879)	
351,000	-	1,122,940		3,953,940	
-	-	-		(3,953,940)	
351,000	-	1,122,940		-	
(389,644)	(239,128)	(813,004)		(2,662,879)	
2,503,353	996,356	2,866,702		21,695,123	
\$ 2,113,709	\$ 757,228	\$ 2,053,698		\$ 19,032,244	

City of Sterling Heights, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds	\$ (2,662,879)
---	----------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation (net of prior year's construction in progress placed in service):

Capital outlay	5,055,289
Depreciation expense	(11,356,706)
Net book value of assets disposed of	(17,357)

Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection

(268,872)

Special assessment revenue is recorded in the statement of activities when the assessment is earned (i.e., work is substantially complete); it is not reported in the funds until collected or collectible within 60 days of year end. In the current year, more was collected than earned

(304,000)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)

3,970,000

Premiums received on bond issuance are recognized in the year of issuance in the governmental funds, but are amortized over the life of the bonds on the statement of activities

28,257

Accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities. In the current year, more was earned than was paid out

195,424

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue (expense) of the Internal Service Fund is reported with governmental activities

(205,487)

Change in Net Assets of Governmental Activities	<u>\$ (5,566,331)</u>
--	------------------------------

City of Sterling Heights, Michigan

Proprietary Funds Statement of Net Assets June 30, 2011

	Business-type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 887,225	\$ 7,514,754
Investments - At fair value (Note 3)	19,068,082	11,760,299
Receivables:		
Customers	7,730,086	-
Accrued interest	116,928	87,155
Prepaid costs and other assets	-	2,864,438
Due from other funds (Note 5)	840,293	1,702,640
Inventories	253,789	-
Total current assets	28,896,403	23,929,286
Noncurrent assets:		
Restricted assets (including \$2,700,000 of cash and cash equivalents) (Note 8)	8,369,375	-
Capital assets - Net (Note 4)	162,849,258	-
Total noncurrent assets	171,218,633	-
Total assets	200,115,036	23,929,286
Liabilities		
Current liabilities:		
Accounts payable	4,047,134	398,019
Accrued and other liabilities	229,351	-
Compensated absences (Note 7)	72,028	-
Current portion of long-term debt (Note 7)	1,107,533	-
Provision for uninsured losses and liabilities (Note 10)	-	614,927
Unearned revenue	47,170	-
Total current liabilities	5,503,216	1,012,946
Noncurrent liabilities:		
Compensated absences (Note 7)	165,890	-
Long-term debt (Note 7)	32,791,397	-
Provision for uninsured losses and liabilities (Note 10)	-	1,425,882
Total noncurrent liabilities	32,957,287	1,425,882
Total liabilities	38,460,503	2,438,828
Net Assets		
Investment in capital assets - Net of related debt	128,950,328	-
Restricted for county drains	154,996	-
Restricted for ordinance requirements	8,214,379	-
Unrestricted	24,334,830	21,490,458
Total net assets	\$ 161,654,533	\$ 21,490,458

City of Sterling Heights, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2011

	Business-type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Operating Revenue		
Water sales	\$ 11,345,898	\$ -
Sewage treatment	14,709,666	-
Service charges	701,102	-
City contributions	-	6,949,857
Other	1,466,090	83,973
 Total operating revenue	 28,222,756	 7,033,830
Operating Expenses		
Wages and fringe benefits	3,461,909	-
Contractual services	165,044	-
Water purchases	9,882,899	-
Sewage disposal charges	11,459,151	-
Materials and supplies	228,338	-
Repairs and maintenance	567,512	-
Building and equipment rental	159,262	-
Insurance	270,260	-
Depreciation	4,990,290	-
Administration expenses	1,671,300	311,222
Reinsurance charges and claims	-	7,145,067
Other	186,604	182,032
 Total operating expenses	 33,042,569	 7,638,321
Operating Loss		
	(4,819,813)	(604,491)
Nonoperating Revenue (Expenses)		
Investment earnings	502,048	399,004
Tap fees and frontage charges	907,844	-
Interest expense	(520,041)	-
 Total nonoperating revenue	 889,851	 399,004
Loss - Before contributions and operating transfers		
	(3,929,962)	(205,487)
Contributions from Developers		
	552,007	-
Change in Net Assets		
Net Assets - Beginning of year	(3,377,955)	(205,487)
Net Assets - End of year	\$ 161,654,533	\$ 21,490,458

City of Sterling Heights, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2011

	Business-type Activities	Governmental Activity
	Internal Service	
Enterprise Fund - Water and Sewer	Fund - Self- insurance	
Cash Flows from Operating Activities		
Receipts from customers	\$ 26,424,131	\$ 5,746,450
Payments to suppliers for goods and services	(21,549,877)	-
Payments to employees for services	(3,488,662)	-
Payments connected with interfund services	(1,941,560)	(1,056,546)
Receipts connected with interfund services	(824,564)	-
Claims paid	-	(7,408,841)
Other receipts	<u>550,032</u>	<u>(98,059)</u>
Net cash used in operating activities	(830,500)	(2,816,996)
Cash Flows from Capital and Related Financing Activities		
Collection of customer assessments (principal and interest)	907,844	-
Principal paid for long-term debt	(97,009)	-
Interest paid for long-term debt	(520,042)	-
Purchase of capital assets	<u>(1,843,442)</u>	<u>-</u>
Net cash used in capital and related financing activities	(1,552,649)	-
Cash Flows from Investing Activities		
Interest received on investments	502,048	399,004
Purchase of investment securities	(41,426,867)	(29,715,338)
Proceeds from sales and maturities of investment securities	<u>41,715,253</u>	<u>36,206,509</u>
Net cash provided by investing activities	<u>790,434</u>	<u>6,890,175</u>
Net (Decrease) Increase in Cash and Cash Equivalents		
	(1,592,715)	4,073,179
Cash and Cash Equivalents - Beginning of year	<u>5,179,940</u>	<u>3,441,575</u>
Cash and Cash Equivalents - End of year	<u><u>\$ 3,587,225</u></u>	<u><u>\$ 7,514,754</u></u>

(This statement is continued on the following page.)

City of Sterling Heights, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2011

Business-type Activities	Governmental Activity
	Internal Service
Enterprise Fund - Water and Sewer	Fund - Self- insurance

Reconciliation of operating loss to net cash from operating activities:

Operating loss	\$ (4,819,813)	\$ (604,491)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	4,990,290	-
Changes in assets and liabilities:		
Receivables	(332,535)	(51,293)
Prepaid costs and other assets	-	(1,152,114)
Due from other funds	(824,564)	(745,324)
Inventory	36,712	-
Accounts payable	129,846	(70,723)
Accrued and other liabilities	18,997	-
Provision for compensated absences	(26,753)	-
Provision for uninsured losses and liabilities	-	(193,051)
Deferred revenue	(2,680)	-
Net cash used in operating activities	<u>\$ (830,500)</u>	<u>\$ (2,816,996)</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2011, developers constructed water and sewer lines with an estimated value of \$10,512 and donated them to the City's Water and Sewer Enterprise Fund. The Oakland-Macomb Interceptor Drainage District (OMID) completed and contributed drainage system improvements totaling \$4,313,608, of which \$541,495 was funded through a principal forgiveness program. Also, during the year, the Macomb County Waste Water Disposal District contributed drainage system improvements and assigned the related debt to the City totaling \$26,978,546.

City of Sterling Heights, Michigan

Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2011

	Trust Funds -	Pensions and	Other Retirement	
	Benefits	Agency Funds		
Assets				
Cash and cash equivalents (Note 3)	\$ 24,107,781	\$ 1,530,224		
Investments - At fair value (Note 3):				
Government securities	43,091,509			-
Short-term investment fund	-	1,602,217		
Mutual funds	20,314,532			-
Corporate bonds	13,761,670			-
Common and preferred stocks	221,415,506			-
Pooled investments	6,578,889			-
Receivables - Accrued interest	295,453		1,878	
Due from other governmental units	-		12,030	
 Total assets	 329,565,340		 <u>\$ 3,146,349</u>	
Liabilities				
Accounts payable	2,018,711	\$ -		
Accrued and other liabilities	1,325,648		1,316,033	
Due to other governmental units	595,450		36,978	
Provision for uninsured losses and liabilities (Note 10)	608,034			-
Deferred revenue	11,493			-
Cash bonds and deposits	-		1,793,338	
 Total liabilities	 4,559,336		 <u>\$ 3,146,349</u>	
 Net Assets - Held in trust for pensions and other retirement benefits		 <u>\$ 325,006,004</u>		

City of Sterling Heights, Michigan

Fiduciary Funds **Statement of Changes in Fiduciary Net Assets** **Year Ended June 30, 2011**

Additions

Investment income (loss):	
Interest and dividends	\$ 7,126,110
Net adjustment to fair value of investments	50,621,225
Less investment expenses	<u>(1,813,318)</u>
Net investment income	55,934,017
Securities lending income:	
Interest and fees	21,268
Less borrower rebates and bank fees	<u>(13,849)</u>
Net securities lending income	7,419
Contributions:	
Employer	18,691,849
Employee	1,886,720
Purchase of prior year's service credits	643,172
Insurance recovery	<u>186,748</u>
Total additions - Net	77,349,925
Deductions	
Benefit payments	27,289,593
Withdrawals and refunds of contributions	<u>1,368,673</u>
Total deductions	28,658,266
Change in Net Assets	48,691,659
Net Assets - Beginning of year	<u>276,314,345</u>
Net Assets - End of year	\$ 325,006,004

City of Sterling Heights, Michigan

Component Units Statement of Net Assets June 30, 2011

	Economic Development Corporation	Brownfield Redevelopment Authority	Corridor Improvement Authority	Local Development Finance Authority	Total
Assets					
Cash and cash equivalents	\$ 1,585	\$ 9,162	\$ 34,501	\$ 72	\$ 45,320
Receivables	-	-	-	186	186
Due from other governmental units	-	355	-	52,895	53,250
Capital assets:					
Nondepreciable (Note 4)	-	-	-	1,209,334	1,209,334
Depreciable - Net (Note 4)	-	-	-	1,661,328	1,661,328
Total assets	1,585	9,517	34,501	2,923,815	2,969,418
Liabilities					
Accounts payable	-	-	105	22,507	22,612
Due to other governmental units				10,680	10,680
Deferred revenue	-	-	-	186	186
Total liabilities	-	-	105	33,373	33,478
Net Assets					
Net investment in capital assets -					
Net of related debt	-	-	-	2,870,662	2,870,662
Unrestricted	1,585	9,517	34,396	19,780	65,278
Total net assets	<u>\$ 1,585</u>	<u>\$ 9,517</u>	<u>\$ 34,396</u>	<u>\$ 2,890,442</u>	<u>\$ 2,935,940</u>

City of Sterling Heights, Michigan

Component Units Statement of Activities Year Ended June 30, 2011

	Program Revenue						Net (Expenses) Revenue and Changes in Net Assets			
	Operating Grants and Contributions		Capital Grants and Contributions		Economic Develop- ment Corporation	Brownfield Redevelop- ment Authority	Corridor Improvement Authority	Local Develop- ment Finance Authority	Total	
	Expenses	Contributions	Contributions	Corporation	Authority	Authority	Authority	Authority		
Economic Development Corporation - Public works	\$ 11,256	\$ 6,000	\$ -	\$ (5,256)	\$ -	\$ -	\$ -	\$ -	\$ (5,256)	
Brownfield Redevelopment Authority - Public works	43,548	48,860	-	-	5,312	-	-	-	5,312	
Corridor Improvement Authority - Public works	190,327	-	-	-	-	(190,327)	-	-	(190,327)	
Local Development Finance Authority - Public works	272,289	208,475	49,449	-	-	-	(14,365)	(14,365)	(14,365)	
Total component units	\$ 517,420	\$ 263,335	\$ 49,449	(5,256)	5,312	(190,327)	(14,365)	(204,636)		
General Revenue - Interest				5	29	104	8	146		
Change in Net Assets				(5,251)	5,341	(190,223)	(14,357)	(204,490)		
Net Assets - Beginning of year				6,836	4,176	224,619	2,904,799	3,140,430		
Net Assets - End of year	\$ 1,585	\$ 9,517	\$ 34,396	\$ 2,890,442	\$ 2,935,940					

City of Sterling Heights, Michigan

Notes to Financial Statements

June 30, 2011

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Sterling Heights, Michigan (the “City”) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected seven-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

Discretely Presented Component Units - The following nonmajor component units are reported within the component units column in the government-wide financial statements to emphasize that they are legally separate from the City. Financial statements for each of the individual component units are available at the City’s office.

- a. The Economic Development Corporation (the “Corporation”) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services to and facilities of such enterprises to the residents of the City. The Corporation’s governing body, which consists of five individuals, is selected by the City Council. In addition, the City Council sets the annual budget for the Corporation. The Corporation is presented as a governmental fund type.
- b. The Brownfield Redevelopment Authority (the “BR Authority”) was created to encourage and provide assistance in environmentally distressed areas in the City. The BR Authority’s governing body, which consists of nine individuals, is selected by the City Council. In addition, the City Council sets the annual budget for the BR Authority. The BR Authority is presented as a governmental fund type.
- c. The Corridor Improvement Authority (the “CI Authority”) was created to encourage revitalization and redevelopment of commercial properties which have been developed along the City’s major arterial roadways. The CI Authority’s governing body, which consists of seven individuals, is selected by the City Council. In addition, the City Council sets the annual budget for the CI Authority. The CI Authority is presented as a governmental fund type.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note I - Summary of Significant Accounting Policies (Continued)

d. The Local Development Finance Authority (the "LDFA") was created to encourage development to prevent conditions of unemployment and promote economic growth. The LDFA's governing body, which consists of seven individuals, is selected by the City Council. In addition, the City Council sets the annual budget for the LDFA. The LDFA is presented as a governmental fund type.

The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not allocable to program revenue are reported instead as general revenue.

Separate financial statements are provided within the report for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major enterprise fund are reported as separate columns in the fund financial statements.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting, as are the proprietary fund and the trust fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Roads Fund (a special revenue fund type) accounts for the resources of state gas and weight tax revenue that is restricted for use on major streets.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note I - Summary of Significant Accounting Policies (Continued)

- The Community Development Block Grant Fund (a special revenue fund type) accounts for federal grant funds received from the U.S. Department of Housing and Urban Development for purposes of developing a viable urban community by providing economic opportunities principally for persons of low and moderate income.
- The Road Bond Debt Retirement Fund (a debt service fund type) accounts for revenue accumulated to pay principal and interest on outstanding debt associated with various road and infrastructure assets.
- The General Improvements Fund (a capital projects fund type) accounts for the proceeds of bond issues and all other resources used for the purpose of constructing all major capital improvement projects of the City other than special assessment, road, and enterprise projects.
- The Road Bond Construction Fund (a capital projects fund type) accounts for the proceeds of bond issues and all other resources used for the purpose of construction activity for roads and storm drains.

The City reports the following major proprietary fund:

- The Water and Sewer Fund accounts for the activity of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

- The Internal Service Fund accounts for risk management services provided to other departments of the government on a cost reimbursement basis.
- The Pension Trust Funds and the Retiree Medical Benefits Trust Fund account for the activities of the general employee and police and fire employees' retirement systems, which accumulate resources for pension benefit payments to qualified general and police and fire employees and for medical benefits provided to employees during retirement, respectively.
- The Tax Collection and General Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, and other governments. Agency Fund activity includes tax collections and the general Agency Fund (District Court activity).

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note I - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classification could be used, it is the policy to spend funds in this order: committed, assigned, and unassigned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The Self-Insurance Fund also recognizes cost recovered as operating revenue. All revenue and expenses not meeting these definitions are reported as nonoperating revenue and expenses.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note I - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Cash, Cash Equivalents, and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with an original maturity of three months or less when acquired.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to" or "due from" other funds. Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to" or "advances from" other funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Properties are assessed as of December 31 and the related property taxes become a lien and are billed on July 1 of the following year. These taxes are due on September 1 with the final collection date of February 28 before they are added to the county tax rolls.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The City Charter requires amounts in the Enterprise Fund to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve, when applicable. These amounts have been classified as restricted assets, as well as amounts on deposit at the county being held for construction, maintenance, or debt service.

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note I - Summary of Significant Accounting Policies (Continued)

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Building improvements	25 years
Other improvements	10-30 years
Equipment	5-20 years
Furnishings and fixtures	10-15 years
Infrastructure	20-40 years
Water and sewer mains	50 years

Compensated Absences - The City allows employees to accumulate earned but unused sick and vacation pay benefits. The government-wide and proprietary statements accrue all vacation and personal pay as it is earned, and sick pay as it is used or vested (whichever is earlier). A liability for these amounts is reported in governmental funds as it comes due for payment (when the time is taken off, or employees terminate).

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as expenditures.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note I - Summary of Significant Accounting Policies (Continued)

Fund Equity - In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications - nonspendable, restricted, committed, assigned, and unassigned. The City implemented Statement No. 54 during the year. In addition to the new fund balance classifications in the governmental fund financial statements, the Land and Water Conservation Fund is now being reported as a capital projects fund as a result of this required implementation.

In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the City Council for use for specific purposes. Commitments are made and can be rescinded only via resolution of the City Council.
- **Assigned:** Intent to spend resources on specific purposes expressed by the City Council or the City Manager, who is authorized by resolution, approved by City Council, to make assignments
- **Unassigned:** All other amounts which are available for any purpose

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions, such as provision for uninsured losses, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note I - Summary of Significant Accounting Policies (Continued)

Pension and Other Postemployment Benefit Costs - The City offers both pension and retiree healthcare benefits to retirees. The City receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, pension and OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

Upcoming Reporting Change - In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement addresses financial reporting related to service concession arrangements which are a type of public private or public partnership. An SCA is an agreement between a transferor (a government) and an operator (whether a government or nongovernment) in which the transferor conveys to an operator the right and relation obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and the operator collects and is compensated by fees from third parties. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2013 fiscal year.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement 14 and Statement 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement also clarifies the reporting of equity interests in legally separate organizations. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2013 fiscal year.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2013 fiscal year.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2011

Note 2 - Stewardship, Compliance, and Accountability

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement will be in effect for the City's 2013 fiscal year. The statement incorporates deferred outflows of sources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the funds basis level.

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2010	\$ (8,242,362)
Current year building permit revenue	1,477,998
Related expenses:	
Direct costs	\$ 1,105,873
Estimated indirect costs	<u>1,119,684</u>
Total construction code expenses	<u>(2,225,557)</u>
Net shortfall for the year ended June 30, 2011	<u>(747,559)</u>
Cumulative shortfall at June 30, 2011	<u>\$ (8,989,921)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note 3 - Deposits and Investments (Continued)

The investment policy adopted by the City Council in accordance with Public Act 20 of 1948, as amended, authorizes investments in U.S. Treasuries, U.S. agencies and instrumentalities (date specific maturities only), non-negotiable certificates of deposit, commercial paper (rated A2/P2 or above), bankers' acceptances, repurchase agreements, overnight deposits, or mutual funds. For overnight deposits, the treasurer may invest overnight or short-term liquid assets to cover cash flow requirements in the following types of pools: investment pools organized under the Surplus Funds Investment Pool Act of 1982, PA 367, 1 MCL 129.111 to MCL 129.118, or investment pools organized under the Urban Cooperation Act of 1967, PA 7, MCL 124.501 to 124.512.

For mutual funds, the treasurer may invest in no-load fixed-income mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan, either taxable or tax-exempt. This authorization is limited to mutual funds whose intent is to maintain a net asset value of \$1.00 per share.

The Pension Trust Funds and the Retiree Medical Benefits Trust Fund are also authorized to invest in certain reverse purchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (limited to 5 percent of the trust fund's assets if total assets are less than \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated one bank for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2011

Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail as follows:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy does not directly address a deposit policy for custodial credit risk. At year end, the City had \$9,250,389 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, none of the City's investments were subject to custodial credit risk due to one of the following:

- Investments were part of an insured pool.
- Investments were book-entry only in the name of the City and were fully insured.
- Investments were part of a mutual fund.
- Investments were held by an agent in the City's name.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy is very specific as it relates to investment maturities, as indicated in the table below:

Instrument	Maturity Maximum
U.S. Treasuries	10 years
U.S. agencies and instrumentalities (date specific maturities only)	10 years
CDs (non-negotiable)	20% to 1 year, 20% to 270 days
Commercial paper (rated A1 or equivalent)	270 days
Bankers' acceptances	184 days
Repurchase agreements	60 days (collateral 10 years for treasuries, seven years for instrumentalities)

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note 3 - Deposits and Investments (Continued)

At year end, the average maturities of investments are as follows:

Investment	Fair Value	Average Maturity
Government-wide		
Commercial paper	\$ 13,786,802	0.14 years
Municipal obligations	3,493,523	6.14 years
U.S. government agencies	31,369,611	7.47 years
General Employees' Retirement System		
Corporate bonds	4,850,559	4.94 years
Foreign bonds	516,044	5.55 years
U.S. government agencies	4,982,782	1.60 years
U.S. government obligations	11,970,524	3.69 years
Municipal obligations	603,782	8.26 years
Police and Fire Retirement System		
Corporate bonds	4,854,252	5.01 years
Foreign bonds	564,893	5.69 years
U.S. government agencies	6,231,737	1.40 years
U.S. government obligations	14,320,368	3.74 years
Municipal obligations	773,758	6.96 years
Retiree Medical Benefits		
Corporate bonds	2,975,922	4.48 years
U.S. government agencies	2,324,094	1.96 years
U.S. government obligations	1,884,464	3.40 years

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2011

Note 3 - Deposits and Investments (Continued)

Credit Risk - In compliance with state law, the City's investment policy limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Organization
Government-wide			
Pooled funds	\$ 11,782,402	A1	S&P
Pooled funds	2,158,935	AAA	S&P
Pooled funds	1,027,758	AAAm	S&P
Commercial paper	13,786,802	A1 to A2	S&P
Municipal obligations	3,493,523	AA- to A-	S&P
U.S. government agencies	31,369,611	AAA	S&P
General Employees' Retirement System			
U.S. government agencies	4,982,782	AAA	S&P
U.S. government obligations	11,970,524	AAA	S&P
Municipal obligations	155,778	Aaa	S&P
Municipal obligations	155,945	AA+	S&P
Municipal obligations	238,918	A1 to A3	S&P
Municipal obligations	53,141	Aa2	S&P
Corporate bonds	1,114,809	AAA to Aaa	S&P
Corporate bonds	553,770	Aa2 to Aa3	S&P
Corporate bonds	1,634,318	A1 to A3	S&P
Corporate bonds	1,354,891	Baa1 to Baa3	S&P
Corporate bonds	195,771	BBB	S&P
Foreign bonds	81,128	Aa2	S&P
Foreign bonds	209,555	A2 to A3	S&P
Foreign bonds	225,361	Baa1 to Baa2	S&P
Police and Fire Retirement System			
U.S. government agencies	6,231,737	Aaa	S&P
U.S. government obligations	14,320,368	Aaa/Tsy/Agy	S&P
Municipal obligations	150,585	Aaa	S&P
Municipal obligations	200,062	Aa2	S&P
Municipal obligations	423,111	A1 to A3	S&P
Corporate bonds	1,167,530	Aaa	S&P
Corporate bonds	586,824	Aa2 to Aa3	S&P
Corporate bonds	1,673,899	A1 to A3	S&P
Corporate bonds	1,425,999	Baa1 to Baa3	S&P
Foreign bonds	76,057	Aa2	S&P
Foreign bonds	258,954	A2 to A3	S&P
Foreign bonds	229,882	Baa1 to Baa2	S&P
Retiree Medical Benefits			
Pooled funds	31,378	NR	
Pooled funds	2,247,553	AAA	S&P
U.S. government agencies	2,324,094	AAA	S&P
U.S. government obligations	1,884,464	AAA	S&P
Corporate bonds	243,121	AA+ to AA-	S&P
Corporate bonds	1,219,769	A-	S&P
Corporate bonds	782,463	BBB+ to BBB-	S&P
Corporate bonds	147,578	A2	Moody's
Corporate bonds	388,710	AA3	Moody's
Corporate bonds	194,281	BAA1	Moody's

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note 3 - Deposits and Investments (Continued)

Concentration of Credit Risk

Through its investment policy, the City places a 5 percent limit on the amount the City may invest in any one issuer.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The pension system restricts the amount of investments in foreign currency denominated investments to 5 percent of total pension system investments.

Both pension systems include exposure to the international asset class in order to increase diversification and reduce risk. The investments held by the General Employees' and Police and Fire Pension International managers are protected from foreign currency risk through the use of ADRs (American Depository Receipts).

Retirement Investments

Securities Lending Transactions - The General Employees' Retirement System and the Police and Fire Retirement System (collectively referred to as the "Systems") have entered into securities lending transactions whereby loans of securities are made to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. State statutes permit participation in securities lending transactions and the Systems have authorized the custodians of their securities to lend securities to broker-dealers and banks pursuant to a formal loan agreement. At June 30, 2011, the Systems have no credit risk exposure to the borrowers because the amounts the Systems owe the borrowers exceed the amount the borrowers owe the Systems.

During the year, security loans were made at the discretion of the Systems' custodial bank and United States currency was received as collateral. Borrowers were required to deliver collateral for each loan equal to but not less than 100 percent of the market value of the loaned securities. The Systems did not impose any restrictions during the past year on the amount of loans that the lending agents could make on their behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon. In addition, there were no losses during the past year resulting from default of the borrowers. Contracts with the lending agents require them to indemnify the Systems if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Systems for income distributions by the securities' issuers while the securities are on loan.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2011

Note 3 - Deposits and Investments (Continued)

All securities loans can be terminated on demand by either the Systems or the borrower. The cash collateral received on each loan was invested, together with the cash collateral of the other lenders, in a pool. The average duration of such investment pools as of June 30, 2011 was overnight. Their duration did not generally match the duration of the loans because the loans could be terminated on demand. The total amount of collateral received and the fair values of the underlying securities for the Systems as of June 30, 2011 were \$10,473,682 and \$10,239,750, respectively.

Note 4 - Capital Assets

Primary Government

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance June 30, 2010	Additions	Disposals and Adjustments	Balance June 30, 2011
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 45,414,228	\$ -	\$ -	\$ 45,414,228
Construction in progress	2,591,528	1,863,983	(1,403,099)	3,052,412
Works of art	336,751	-	-	336,751
Net capital assets -				
Nondepreciable	48,342,507	1,863,983	(1,403,099)	48,803,391
Capital assets being depreciated:				
Building and building improvements	37,964,853	53,325	-	38,018,178
Improvements other than buildings	9,702,604	-	-	9,702,604
Equipment	36,491,683	2,222,035	(550,143)	38,163,575
Furnishings and fixtures	1,291,979	1,240	-	1,293,219
Infrastructure	236,098,339	2,317,805	-	238,416,144
Subtotal	321,549,458	4,594,405	(550,143)	325,593,720
Accumulated depreciation:				
Building and building improvements	11,685,037	814,804	-	12,499,841
Improvements other than buildings	2,038,713	320,066	-	2,358,779
Equipment	24,753,424	2,306,846	(532,786)	26,527,484
Furnishings and fixtures	1,028,900	39,367	-	1,068,267
Infrastructure	128,409,955	7,875,623	-	136,285,578
Subtotal	167,916,029	11,356,706	(532,786)	178,739,949
Net capital assets being depreciated	153,633,429	(6,762,301)	(17,357)	146,853,771
Net governmental capital assets	\$ 201,975,936	\$ (4,898,318)	\$ (1,420,456)	\$ 195,657,162

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2011

Note 4 - Capital Assets (Continued)

	Balance June 30, 2010	Additions	Disposals and Adjustments	Balance June 30, 2011
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 64,871	\$ -	\$ -	\$ 64,871
Construction in progress	3,105,475	6,084,636	(204,436)	8,985,675
Net capital assets - Nondepreciable	3,170,346	6,084,636	(204,436)	9,050,546
Capital assets being depreciated:				
Building and building improvements	422,632	98,113	-	520,745
Improvements other than buildings	11,391	-	-	11,391
Equipment	3,898,190	79,402	(115,262)	3,862,330
Furnishings and fixtures	28,230	-	-	28,230
Water and sewer mains	228,082,794	27,095,383	-	255,178,177
Subtotal	232,443,237	27,272,898	(115,262)	259,600,873
Accumulated depreciation:				
Building and building improvements	222,288	10,910	-	233,198
Improvements other than buildings	11,391	-	-	11,391
Equipment	1,995,479	253,723	(108,271)	2,140,931
Furnishings and fixtures	22,436	985	-	23,421
Water and sewer mains	98,668,548	4,724,672	-	103,393,220
Subtotal	100,920,142	4,990,290	(108,271)	105,802,161
Net capital assets being depreciated	131,523,095	22,282,608	(6,991)	153,798,712
Net business-type capital assets	\$ 134,693,441	\$ 28,367,244	\$ (211,427)	\$ 162,849,258

Construction in progress includes \$6,900,481 (of which the current year amount is \$4,313,608) of drain improvements constructed by the Oakland-Macomb Interceptor Drainage District (OMID), which is the City's portion of total OMID improvements in the amount of \$41,846,220. These improvements will be completed by OMID using state revolving loan funds and bonded debt. See Note 7 for additional information.

Water and sewer mains includes the purchase of the Macomb Interceptor Drain by the Macomb County Waste Water District from the City of Detroit for \$95,620,000. The City's portion of the purchase is in the amount of \$26,725,795. See Note 7 for additional information.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2011

Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 307,537
Public safety	1,731,818
Public works	8,551,932
Recreation and culture	737,827
41A District Court	<u>27,592</u>
 Total governmental activities	 <u>\$ 11,356,706</u>
 Business-type activities - Water and sewer	 <u>\$ 4,990,290</u>

Discretely Presented Component Units

Capital asset activity of the discretely presented component units was as follows:

	Balance June 30, 2010	Additions	Disposals and Adjustments	Balance June 30, 2011
Local Development Finance Authority				
Capital assets not being depreciated:				
Land	\$ 1,209,203	\$ -	\$ -	\$ 1,209,203
Construction in progress	<u>-</u>	<u>131</u>	<u>-</u>	<u>131</u>
Net capital assets -				
Nondepreciable	1,209,203	131	-	1,209,334
Capital assets being depreciated -				
Building and building improvements	1,712,709	-	-	1,712,709
Less accumulated depreciation	<u>17,127</u>	<u>34,254</u>	<u>-</u>	<u>51,381</u>
Net capital assets being depreciated	<u>1,695,582</u>	<u>(34,254)</u>	<u>-</u>	<u>1,661,328</u>
Net component units capital assets	<u>\$ 2,904,785</u>	<u>\$ (34,123)</u>	<u>\$ -</u>	<u>\$ 2,870,662</u>

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note 4 - Capital Assets (Continued)

Construction Commitments - The City has active construction projects at year end. The projects are related to road repair, replacement and construction programs, and other capital improvements. At year end, the City's commitments with contractors are as follows:

	Remaining Spent to Date	Commitment
Construction and other contracts	\$ 3,016,733	\$ 1,013,678

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances in the fund-level financial statements is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Major Roads Fund	\$ 75,998
	CDBG Fund	29,556
	General Improvements Fund	12,225
	Nonmajor governmental funds	<u>78,545</u>
	Total General Fund	196,324
Nonmajor governmental funds	General Fund	1,269
Proprietary Fund	General Fund	840,293
Self-insurance Fund	General Fund	<u>1,702,640</u>
	Total	<u>\$ 2,740,526</u>

Interfund balances represent routine and temporary cash flow assistance from the General Fund until amounts are transferred from fund investment accounts.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers Reported in the Fund Statements

Fund Transferred From	Fund Transferred To	Amount
General Fund	General Improvements Fund	\$ 351,000
	Nonmajor governmental funds	1,122,940
	Total	1,473,940
Major Roads Fund	Road Bond Debt Retirement Fund	2,480,000
	Total	\$ 3,953,940

The transfer from the General Fund to the General Improvements Fund represents the transfer of unrestricted resources for sidewalk repair and replacement, equipment purchases, and repairs and improvements to various city buildings; and the transfers from the General Fund to the nonmajor governmental funds represent unrestricted resources for current local road repair and replacement programs and debt service payments.

The transfer from the Major Roads Fund to the Road Bond Debt Retirement Fund represents funding of current debt service.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note 6 - Deferred Revenue

Governmental funds report unearned revenue in connection with receivables and deposits for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Due from Macomb County (Note 8)	\$ 1,975,407	\$ -
Loans receivable - Rehabilitation	- -	1,785,525
Special assessments	2,734,412	- -
Other deposits	<u>109,245</u>	<u>822,782</u>
 Total	 <u>\$ 4,819,064</u>	 <u>\$ 2,608,307</u>

Note 7 - Long-term Debt

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the City. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2011

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds:					
2003 Michigan Transportation Refunding Bonds:					
Amount of Issue - \$3,050,000					
Maturing through 2012					
Interest Rate Ranges 3.05% - 3.60%					
Principal Maturity Range \$245,000 - \$500,000	\$ 995,000	\$ -	\$ (500,000)	\$ 495,000	\$ 250,000
2005 Michigan Transportation Refunding Bonds:					
Amount of Issue - \$3,285,000					
Maturing through 2014					
Interest Rate Ranges 3.45% - 4.125%					
Principal Maturity Range \$425,000 - \$1,000,000	2,425,000	-	(425,000)	2,000,000	500,000
2005 Limited Tax Refunding Bonds:					
Amount of Issue - \$2,820,000					
Maturing through 2019					
Interest Rate Ranges 3.75% - 5.00%					
Principal Maturity Range \$190,000 - \$600,000	2,520,000	-	(190,000)	2,330,000	200,000
2005 Michigan Transportation Fund Bonds:					
Amount of Issue - \$5,300,000					
Maturing through 2019					
Interest Rate Ranges 3.50% - 4.25%					
Principal Maturity Range \$300,000 - \$625,000	4,600,000	-	(300,000)	4,300,000	350,000
2007 Michigan Transportation Fund Bonds:					
Amount of Issue - \$4,650,000					
Maturing through 2021					
Interest Rate Ranges 3.70% - 4.00%					
Principal Maturity Range \$300,000 - \$1,000,000	4,300,000	-	(200,000)	4,100,000	200,000
2007 Limited Tax Capital Improvement Bonds:					
Amount of Issue - \$3,250,000					
Maturing through 2012					
Interest Rate 4.00%					
Principal Maturity Range \$325,000 - \$600,000	1,525,000	-	(600,000)	925,000	600,000
2008 Unlimited Tax Fire Station Improvements:					
Amount of Issue - \$5,000,000					
Maturing through 2023					
Interest Rate Ranges 3.00% - 4.00%					
Principal Maturity Range \$150,000 - \$600,000	4,775,000	-	(150,000)	4,625,000	175,000
2010 Michigan Transportation Refunding Bonds					
Amount of Issue - \$2,240,000					
Maturing through 2014					
Interest Rate 2.00%					
Principal Maturity Range \$520,000 - \$605,000	2,240,000	-	(525,000)	1,715,000	520,000
2010 Michigan Transportation Recovery Zone Bonds					
Amount of Issue - \$1,570,000					
Maturing through 2025					
Interest Rate Ranges 1.50% - 6.05%					
Principal Maturity Range \$20,000 - \$200,000	1,570,000	-	-	1,570,000	20,000

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2011

Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Governmental Activities (Continued)					
County Drain contract obligations:					
Busch Drain Drainage District:					
Amount of Issue - \$1,250,000					
Maturing through 2014					
Interest Rate Ranges 4.40% - 4.55%					
Principal Maturity Range \$100,000 - \$125,000	\$ 450,000	\$ -	\$ (100,000)	\$ 350,000	\$ 100,000
Hawken Drain Drainage District:					
Amount of Issue - \$795,000					
Maturing through 2015					
Interest Rate Ranges 5.00% - 5.25%					
Principal Maturity Range \$50,000 - \$150,000	300,000	-	(50,000)	250,000	50,000
Hayes Drain Drainage District:					
Amount of Issue - \$1,095,000					
Maturing through 2015					
Interest Rate Ranges 4.80% - 5.20%					
Principal Maturity Range \$100,000 - \$125,000	575,000	-	(100,000)	475,000	100,000
Plumbrook Bridge Replacement Drain					
Drainage District:					
Amount of Issue - \$2,800,000					
Maturing through 2015					
Interest Rate Ranges 4.00% - 5.00%					
Principal Maturity Range \$225,000 - \$500,000	1,275,000	-	(225,000)	1,050,000	250,000
17 Mile Extension Drain Drainage District:					
Amount of Issue - \$1,725,000					
Maturing through 2016					
Interest Rate Ranges 4.00% - 4.50%					
Principal Maturity Range \$125,000 - \$150,000	875,000	-	(125,000)	750,000	150,000
Sterling Relief Lateral 12B Drainage District:					
Amount of Issue - \$885,000					
Maturing through 2012					
Interest Rate Ranges 3.40% - 3.90%					
Principal Maturity Range \$100,000 - \$115,000	320,000	-	(100,000)	220,000	105,000
17 Mile Road Drain and Branches Refunding Bonds:					
Amount of Issue - \$2,315,000					
Maturing through 2013					
Interest Rate Ranges 3.45% - 3.70%					
Principal Maturity Range \$270,000 - \$290,000	840,000	-	(280,000)	560,000	270,000
Special Assessment Bonds:					
2008 Special Assessment Limited Tax Bonds:					
Amount of Issue - \$3,260,000					
Maturing through 2028					
Interest Rate Ranges 3.00% - 4.50%					
Principal Maturity Range \$110,000 - \$450,000	3,160,000	-	(100,000)	3,060,000	100,000
Total bond obligations	32,745,000	-	(3,970,000)	28,775,000	3,940,000
Other long-term obligations:					
Provision for uninsured losses and other liabilities	2,233,860	5,986,776	(6,179,827)	2,040,809	614,927
Compensated absences - General Fund obligations	5,522,168	1,239,376	(1,434,801)	5,326,743	1,106,032
Total other long-term obligations	7,756,028	7,226,152	(7,614,628)	7,367,552	1,720,959
Total governmental activities	40,501,028	7,226,152	(11,584,628)	36,142,552	5,660,959

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2011

Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Business-type Activities - Water and Sewer					
County Drain Contract Obligations:					
General obligation bonds:					
2008 North Gratiot Interceptor Drainage District:					
Amount of Issue - \$2,597,695					
Maturing through 2033					
Interest Rate Ranges 3.50% -5.00%					
Principal Maturity Range \$60,836 - \$146,006	\$ 2,597,695	\$ -	\$ (60,836)	\$ 2,536,859	\$ 60,836
2010B OMID Drainage District:					
Amount of Issue - \$1,104,832					
Maturing through 2030					
Interest Rate Ranges 1.15% -5.90%					
Principal Maturity Range \$31,331 - \$85,748	1,104,836	-	(31,331)	1,073,505	37,103
2010 North Gratiot Interceptor Drainage District:					
Amount of Issue - \$252,751					
Maturing through 2035					
Interest Rate Ranges 1.00% -6.35%					
Principal Maturity Range \$4,842 - \$14,526	-	252,751	(4,842)	247,909	7,747
2010A MID Drainage District:					
Amount of Issue - \$26,725,795					
Maturing through 2035					
Interest Rate Ranges 1.25% -5.50%					
Principal Maturity Range \$834,308 - \$1,573,586	-	26,725,795	-	26,725,795	834,308
Total bond obligations	3,702,531	26,978,546	(97,009)	30,584,068	939,994
Other long-term obligations - Compensated absences - Water and Sewer Fund	264,671	13,068	(39,821)	237,918	72,028
Total business-type activities	3,967,202	26,991,614	(136,830)	30,821,986	1,012,022
Total	\$ 44,468,230	\$ 34,217,766	\$ (11,721,458)	\$ 66,964,538	\$ 6,672,981

Annual debt service requirements to maturity for the above governmental bond and note obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2012	\$ 3,940,000	\$ 1,098,472	\$ 5,038,472
2013	3,905,000	961,066	4,866,066
2014	3,205,000	829,435	4,034,435
2015	2,590,000	715,313	3,305,313
2016	1,710,000	621,100	2,331,100
2017-2021	9,200,000	1,983,296	11,183,296
2022-2026	3,625,000	467,050	4,092,050
2027-2029	600,000	40,350	640,350
Total	\$ 28,775,000	\$ 6,716,082	\$ 35,491,082

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above business-type activity bond and note obligations are as follows:

	Business-type Activities		
	Principal	Interest	Total
2012	\$ 939,994	\$ 1,367,513	\$ 2,307,507
2013	949,203	1,354,201	2,303,404
2014	991,201	1,337,411	2,328,612
2015	1,004,105	1,315,072	2,319,177
2016	1,019,878	1,290,274	2,310,152
2017-2021	5,529,359	5,916,588	11,445,947
2022-2026	6,382,737	4,654,147	11,036,884
2027-2031	7,441,874	2,914,875	10,356,749
2032-2035	6,325,717	845,373	7,171,090
 Total	 <u>\$ 30,584,068</u>	 <u>\$ 20,995,454</u>	 <u>\$ 51,579,522</u>

In 2010, the Oakland Macomb Interceptor Drainage District (OMID) was approved for \$42,000,000 of loans through the Michigan State Revolving Loan Fund Program (SRF), of which approximately \$6,900,000 was anticipated as the City's share. The SRF loans are, in part, supported by grant funding from the American Recovery and Reinvestment Act of 2010 (ARRA) and includes loan principal forgiveness which will equal 40 percent of final allowable project costs. The ARRA amounts are recognized as contributed capital when construction costs are incurred. The City's portion of the forgiven principal has been recognized as contributed capital in the Water and Sewer Fund totaling \$2,635,777, of which the current year amount recognized is \$541,495. The City's share of SRF funds drawn and payable at June 30, 2011 is \$3,314,862, of which \$167,539 is the current portion due. This amount is not included in the debt schedule or the debt maturity schedule.

During the year, the Macomb Interceptor Drainage District (MID) issued the 2010A MID drainage district bonds in the amount of \$95,620,000. Debt was allocated based on a three-year average flow calculation, of which \$26,725,795 is the City's share. The debt was issued for the purpose of acquiring the Macomb Interceptor Drain from the City of Detroit. Also during the year, the MID assigned debt to the City for the 2010 North Gratiot Interceptor drainage district bonds in the amount of \$252,751.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note 7 - Long-term Debt (Continued)

Subsequent Event

Subsequent to year end, the MID issued debt in the amount of \$30,800,000, of which approximately \$9,900,000 is the City's share. The debt was issued for the purpose of constructing improvements to the Clintondale Pump Station in Macomb County for the benefit of several communities.

Note 8 - Restricted Assets

Specific assets of the Water and Sewer Fund have been restricted by ordinance which requires the City to set aside a sum sufficient to provide for the subsequent quarter's expenses for operations, maintenance, and replacement. Additionally, specific assets of the Water and Sewer Fund and the General Improvements Fund are restricted as the result of external governments issuing bonds for which state law requires the proceeds of the issue to be used exclusively for the purpose for which the bonds were issued or the repayment of the bonds. The following is the detail of restricted assets at June 30, 2011:

Water and Sewer Fund:

Cash and cash equivalents	\$ 2,700,000
Investments	5,514,379
Due from Oakland County*	<u>154,996</u>
Total Water and Sewer Fund	8,369,375

General Improvements Fund - Due from Macomb County**

(Note 6)	<u>1,975,407</u>
Total restricted assets	<u>\$ 10,344,782</u>

* This amount is held by Oakland County in a construction fund maintained on behalf of the City for improvements to the Oakland-Macomb Interceptor Drainage District.

** This amount is held by Macomb County in Construction and Debt Retirement Funds maintained on behalf of the City by the Macomb County Department of Public Works for drain construction projects of the City.

There are no current liabilities payable from county restricted assets.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note 9 - Loans Receivable

The City utilizes Community Development Block Grant funds to provide housing rehabilitation loans to eligible applicants. Such loans are made to low- and moderate-income persons to improve or rehabilitate residences. The City accounts for this program in the Special Revenue Community Development Block Grant Fund. Loans receivable of \$1,785,525 at June 30, 2011 have been reflected in the accompanying fund financial statements as rehabilitation loans receivable with an offsetting deferred revenue for the recording of related grant funding.

Note 10 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation and short-term disability), as well as medical benefits provided to employees.

The City participates in the Michigan Municipal Risk Management Authority (the "Authority") risk pool program for claims relating to liability, auto, and property loss. The program operates as a claim servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although funds are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City. The City is self-funded for workers' compensation and medical benefits up to a retention amount, at which time the City's reinsurance coverage begins.

Property Liability

Prior to participating in the Michigan Municipal Risk Management Authority, the City purchased reinsurance through Arthur J. Gallagher and Company, an international insurance brokerage firm.

It is estimated, based on past experience, that \$738,918 will be paid for all claims reported to date and \$576,092 will be paid for claims incurred but not reported. The estimated liability for reported and incurred but not reported claims has been recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	2011	2010
Estimated liability - Beginning of year	\$ 1,422,600	\$ 1,655,666
Estimated claims incurred, including		
changes in estimates	189,624	361,106
Claim payments	<u>(297,214)</u>	<u>(594,172)</u>
Estimated liability - End of year	<u>\$ 1,315,010</u>	<u>\$ 1,422,600</u>

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note 10 - Risk Management (Continued)

Medical Claims and Short-term Disability

As of April 1, 1989, the City became self-insured for Blue Cross/Blue Shield equivalent healthcare coverage. Under the program, the City was liable for claims up to a retention amount of \$200,000 per active and retired employee (including dependents) for the contract year ended June 30, 2011. For the contract year beginning July 1, 2011, the City's retention amount is \$250,000. At January 1, 1990, the City became self-insured for short-term disability.

It is estimated, based on past experience, that \$14,940 will be paid for all claims reported to date and \$1,027,182 will be paid for claims incurred but not reported. This amount and all other transactions with respect to active employee medical and short-term disability claims are reflected in the Self-insurance Internal Service Fund. Retired employee medical claims are reflected in the Retiree Medical Benefits Trust Fund. Changes in the estimated liability for the past two fiscal years are as follows:

	Self-insurance Internal Service Fund	
	2011	2010
Estimated liability - Beginning of year	\$ 421,950	\$ 440,113
Estimated claims incurred, including changes in estimates	5,454,778	4,718,434
Claim payments	(5,442,641)	(4,736,597)
Estimated liability - End of year	<u>\$ 434,087</u>	<u>\$ 421,950</u>

	Retiree Medical Benefits Trust Fund	
	2011	2010
Estimated liability - Beginning of year	\$ 651,878	\$ 636,953
Estimated claims incurred, including changes in estimates	4,820,433	5,389,394
Claim payments	(4,864,277)	(5,374,469)
Estimated liability - End of year	<u>\$ 608,034</u>	<u>\$ 651,878</u>

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note 10 - Risk Management (Continued)

Workers' Compensation

On July 1, 1992, the City became self-insured for workers' compensation claims. Under the program, the City was liable for the first \$150,000 of any occurrence for the contract year ended June 30, 2011. The City has purchased excess insurance to cover claims greater than \$150,000. For the contract year beginning July 1, 2011, the City is liable for the first \$300,000. At June 30, 2011, it was estimated, based on past experience, that \$291,712 will be paid in total for both claims reported to date and claims incurred but not reported. This estimated liability for claims reported to date has been recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	2011	2010
Estimated liability - Beginning of year	\$ 389,310	\$ 183,015
Estimated claims incurred, including changes in estimates	342,374	448,159
Claim payments	<u>(439,972)</u>	<u>(241,864)</u>
Estimated liability - End of year	<u><u>\$ 291,712</u></u>	<u><u>\$ 389,310</u></u>

Note 11 - Defined Benefit Pension Plans

Plan Description

The City participates in two retirement plans, the General Employees' Retirement System and the Police and Fire Retirement System. The General Employees' Retirement System and the Police and Fire Retirement Boards are the administrators of single-employer defined benefit public employee retirement systems that cover substantially all general employees and police and fire employees, respectively. The plans do not issue separate financial statements.

General Employees' Retirement System - This system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2010, the date of the most recent actuary report, membership consisted of 277 retirees, beneficiaries, alternative payees currently receiving benefits, 12 terminated employees entitled to benefits but not yet receiving them, and 214 current active employees. The Retirement System remains closed to new members.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note 11 - Defined Benefit Pension Plans (Continued)

Police and Fire Retirement System - This system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2010, the date of the most recent actuary report, membership consisted of 271 retirees, beneficiaries, alternate payees and terminated drop members currently receiving benefits, three terminated employees entitled to benefits but not yet receiving them, 239 current active employees, and 21 drop participants.

Contributions and Funding Policy

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plans are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. Please refer to Note 1 for further significant accounting policies.

General Employees' Retirement System - The obligation to contribute to and maintain this system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from substantially all employees ranging from 5.0 to 8.0 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings and the General Fund.

Police and Fire Retirement System - The obligation to contribute to and maintain this system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from substantially all employees of 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note 11 - Defined Benefit Pension Plans (Continued)

Annual Pension Costs

General Employees' Retirement System - For the fiscal year ended June 30, 2011, the City's annual pension cost of \$486,096 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2009, using the entry actual age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return and (b) projected salary increases of 4.5 to 13.0 percent per year. Both (a) and (b) include an inflation component of 4.0 percent and were determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as smooth dollar on a closed basis. The remaining amortization period is 20 years.

Police and Fire Retirement System - For the fiscal year ended June 30, 2011, the City's annual pension cost of \$6,135,053 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2009, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return and (b) projected salary increases of 4.0 to 17.0 percent per year. Both (a) and (b) include an inflation component of 3.0 percent and were determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on an open basis. The remaining amortization period is 25 years.

The pension cost for the three most recent years is as follows:

	Year Ended		
	2011	2010	2009
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 486,096	\$ 204,054	\$ -
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Police and Fire Retirement System:			
Annual pension costs (APC)	\$ 6,135,053	\$ 4,925,570	\$ 2,594,194
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note 11 - Defined Benefit Pension Plans (Continued)

Funded Status and Funding Progress

The schedules of funding progress, presented as required supplemental information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of the plan's assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

General Employees' Retirement System - As of December 31, 2010, the most recent actuarial valuation date, the plan was 99.6 percent funded. The actuarial accrued liability for benefits was \$119.6 million, and the actuarial value of assets was \$119.1 million, resulting in an unfunded actuarial accrued liability of \$0.5 million. The covered payroll (annual payroll for active employees covered by the plan) was \$15.0 million, and the ratio for the unfunded actuarial accrued liability to the covered payroll was 3.5 percent.

As of June 30, 2011, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 8,349,539
Reserve for retired benefit payments	70,480,552

Police and Fire Retirement System - As of December 31, 2010, the most recent actuarial valuation date, the plan was 78 percent funded. The actuarial accrued liability for benefits was \$238.0 million, and the actuarial value of assets was \$185.8 million, resulting in an unfunded actuarial accrued liability of \$52.2 million. The covered payroll (annual payroll for active employees covered by the plan) was \$22.4 million, and the ratio for the unfunded actuarial accrued liability to the covered payroll was 232.9 percent.

As of June 30, 2011, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 22,208,282
Reserve for retired benefit payments	144,821,227

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2011

Note 11 - Defined Benefit Pension Plans (Continued)

Statement of Net Assets

	General Employees' Retirement System	Police and Fire Retirement System
Assets		
Cash and cash equivalents	\$ 5,287,572	\$ 16,541,278
Investments - At fair value:		
Government securities	17,557,088	21,325,863
Mutual funds	7,274,838	10,882,551
Corporate bonds	5,366,603	5,419,145
Common and preferred stocks	77,235,030	112,761,039
Pooled investments	-	6,578,889
Receivables - Accrued interest	118,139	177,314
 Total assets	 112,839,270	 173,686,079
Liabilities		
Accounts payable	661,684	1,238,995
Accrued and other liabilities	445,330	867,343
Deferred revenue	11,493	-
 Total liabilities	 1,118,507	 2,106,338
 Net Assets - Held in trust for pensions	 <u>\$ 111,720,763</u>	 <u>\$ 171,579,741</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2011

Note 11 - Defined Benefit Pension Plans (Continued)

Statement of Changes in Net Assets

	General Employees' Retirement System	Police and Fire Retirement System
Additions		
Investment income (loss):		
Interest and dividends	\$ 2,802,621	\$ 3,501,739
Net adjustment to fair value of investments	17,610,068	26,240,436
Less investment expenses	(609,706)	(922,036)
Net investment income	19,802,983	28,820,139
Securities lending income:		
Interest and fees	6,348	14,920
Less borrower rebates and bank fees	(4,106)	(9,743)
Net securities lending income	2,242	5,177
Contributions:		
Employer	486,096	6,135,053
Employee	720,634	1,166,086
Purchase of prior year's service credits	14,874	628,298
Total additions - Net	21,026,829	36,754,753
Deductions		
Benefit payments	7,220,270	13,304,517
Refunds of contributions	1,064,872	303,801
Total deductions	8,285,142	13,608,318
Change in Net Assets	12,741,687	23,146,435
Net Assets - Beginning of year	98,979,076	148,433,306
Net Assets - End of year	\$ 111,720,763	\$ 171,579,741

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note 12 - Defined Contribution Pension Plan

The City provides pension benefits to all new general employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by City Council resolution, the City contributes 7 percent of employees' base wages, while the employees contribute a minimum of 5 percent of gross wages to the employees' individual accounts. The City's contributions to the employees' accounts including investment earnings are fully vested after five years of service. In accordance with these requirements, the City contributed \$304,911 during the current year and employees contributed \$247,177.

Note 13 - Postemployment Benefits

Plan Description - The City provides other postemployment benefits (OPEB) to eligible employees and their spouses through the Sterling Heights Retiree Medical Benefits Trust plan. Health and life insurance benefits are provided to all public safety and general employees and their spouses. Additionally, public safety employees and their spouses are provided with dental benefits. At December 31, 2010, the date of the most recent actuary report, the plan has 1,033 members (including employees in active service and retirees or beneficiaries currently receiving benefits). Of those members, 238 general and 242 police and fire retirees are receiving benefits.

This is a single-employer defined benefit plan administered by the City. The benefits are provided for employees who satisfy applicable service retirement eligibility as contained in collectively bargained labor agreements. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions.

Funding Policy - For current employees, the City includes pre-Medicare retirees and their spouses in its healthcare plan, with no contribution required by participants. As of June 30, 2008, labor contracts include a clause that requires new employees to contribute 50 percent of the monthly retiree healthcare coverage premium upon retirement except for the U.A.W. Professional and Technical Employees Union, which requires employees hired after July 1, 2003 to contribute 25 percent and for employees hired after July 1, 2008 to contribute 60 percent of the monthly retiree premium.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note 13 - Postemployment Benefits (Continued)

The City purchases Medicare supplemental insurance for retirees eligible for Medicare. The cost of retiree healthcare benefits is reflected in the Retiree Medical Benefits Fund, which was established during the 1989 fiscal year when the City began to prefund these benefits. During the current year, the contribution amounted to \$12,070,700, which was funded by the General Fund and the Water and Sewer Fund, and healthcare benefits paid totaled \$6,738,128.

Funding Progress - For the year ended June 30, 2011, the City estimated the cost of providing postemployment benefits through an actuarial valuation as of December 31, 2010. The valuation computes an annual required contribution which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. For the fiscal year ended June 30, 2011, the City's annual contribution of \$12,070,700 for the plan was equal to the required contribution.

The OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the three most recent years have been presented:

	Fiscal Year Ended		
	2011	2010	2009
Annual OPEB costs (AOC)	\$ 12,070,700	\$ 11,604,200	\$ 11,265,740
Percentage of AOC contributed	100%	100%	100%
Net OPEB obligation	\$ -	\$ -	\$ -

The funding progress of the plan as of the most recent valuation date is as follows:

Valuation as of December 31, 2010:

Actuarial value of assets	\$ 38,675,481
Actuarial value of liability (AAL)	178,487,654
Unfunded AAL (UAAL)	139,812,173
Funded ratio	21.7%
Annual covered payroll	43,400,000
Ratio of UAAL to covered payroll	322.1%

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note 13 - Postemployment Benefits (Continued)

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrences of events into the future. As a result, the amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to revision as actual results are compared to past expectations and new estimates are formulated about the future. The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The annual required contribution was determined as part of an actuarial valuation at December 31, 2008, using the individual entry age actuarial cost method. The actuarial assumptions included an 8.0 percent rate of return on investments (net of applicable expenses identified above) which was based on the historical rate of return achieved by the asset mix used within the plan. An annual healthcare cost trend of 10 percent was used in fiscal 2008, grading to 4.5 percent in fiscal 2017 and thereafter. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using the market value of the assets at the date of the valuation. The UAAL is being amortized as a level percent of projected payroll on an open basis. The remaining amortization period is 30 years.

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note 13 - Postemployment Benefits (Continued)

Statement of Net Assets

	Retiree Medical Benefits
Assets	
Cash and cash equivalents	\$ 2,278,931
Investments - At fair value:	
Government securities	4,208,558
Mutual funds	2,157,143
Corporate bonds	2,975,922
Common and preferred stocks	<u>31,419,437</u>
Total assets	43,039,991
Liabilities	
Accounts payable	118,032
Accrued and other liabilities	12,975
Due to other governmental units	595,450
Provision for uninsured losses and liabilities	<u>608,034</u>
Total liabilities	<u>1,334,491</u>
Net Assets - Held in trust for other retirement benefits	<u>\$ 41,705,500</u>

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note 13 - Postemployment Benefits (Continued)

Statement of Changes in Net Assets

	Retiree Medical Benefits
Additions	
Investment income (loss):	
Interest and dividends	\$ 821,750
Net adjustment to fair value of investments	6,770,721
Less investment expenses	<u>(281,576)</u>
Net investment income	7,310,895
Contributions - Employer	12,070,700
Insurance recovery	<u>186,748</u>
Total additions	19,568,343
Deductions - Benefit payments	<u>6,764,806</u>
Net Change in Net Assets	12,803,537
Net Assets - Beginning of year	<u>28,901,963</u>
Net Assets - End of year	<u>\$ 41,705,500</u>

City of Sterling Heights, Michigan

Notes to Financial Statements **June 30, 2011**

Note 14 - Unrestricted Net Assets

The following is a summary of the unrestricted net assets of the proprietary fund with management's designation:

<u>Designated for</u>	<u>Enterprise Fund - Water and Sewer</u>
Capital improvement	\$ 2,540,000
Undesignated	21,794,830

Note 15 - Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

The City is also involved in a number of real and personal property tax assessment challenges. The possible outcome of these challenges cannot be determined at this time. Accordingly, no liability has been recorded.

Required Supplemental Information

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
				Positive (Negative)
Fund Balance - Beginning of year	\$ 12,528,923	\$ 12,528,923	\$ 12,528,923	\$ -
Resources (Inflows)				
Property taxes	48,608,400	47,423,490	47,431,952	8,462
Refuse taxes	4,485,940	4,393,220	4,377,125	(16,095)
Police and fire pension taxes	5,866,050	5,887,050	5,753,368	(133,682)
Federal, state, and local returns	9,164,700	10,028,740	10,174,234	145,494
Licenses and permits	1,047,500	1,439,000	1,438,197	(803)
Fines and forfeitures	3,446,600	3,442,600	3,353,875	(88,725)
Charges for services	8,615,370	8,744,870	8,583,882	(160,988)
Cable revenue	1,800,000	1,900,000	1,950,435	50,435
Other revenue	2,850,250	2,955,990	2,879,650	(76,340)
Total resources (inflows)	85,884,810	86,214,960	85,942,718	(272,242)
Charges to Appropriations (Outflows)				
41A District Court	3,290,470	3,270,590	3,246,811	23,779
City administration	7,543,050	7,243,140	7,142,129	101,011
Community relations	1,606,950	1,462,010	1,471,812	(9,802)
Police department	32,961,120	32,606,650	32,483,700	122,950
Fire department	18,301,770	18,356,840	18,360,030	(3,190)
City development	3,871,660	3,848,420	3,777,310	71,110
Public works department	8,010,440	7,926,200	7,951,685	(25,485)
Refuse collection	4,518,940	4,429,880	4,450,356	(20,476)
Parks and recreation department	2,119,970	1,982,390	1,965,270	17,120
Public library department	2,755,600	2,656,520	2,637,838	18,682
General expenditures	2,507,040	2,575,040	2,519,544	55,496
Transfers to other funds	1,443,940	1,473,940	1,473,940	-
Total charges to appropriations (outflows)	88,930,950	87,831,620	87,480,425	351,195
Fund Balance - End of year	\$ 9,482,783	\$ 10,912,263	\$ 10,991,216	\$ 78,953

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Roads Fund Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget
	Positive (Negative)			
Fund Balance - Beginning of year	\$ 2,430,233	\$ 2,430,233	\$ 2,430,233	\$ -
Resources (Inflows)				
Federal sources	158,720	169,200	-	(169,200)
State sources	4,675,000	4,940,000	5,012,466	72,466
Other	213,000	217,000	200,224	(16,776)
Total resources (inflows)	5,046,720	5,326,200	5,212,690	(113,510)
Charges to Appropriations (Outflows)				
Public works:				
Administration	130,410	130,410	142,343	(11,933)
Routine maintenance	1,660,350	1,916,350	1,805,150	111,200
Improvements	796,220	660,720	525,344	135,376
Transfers to other funds	2,480,000	2,480,000	2,480,000	-
Total charges to appropriations (outflows)	5,066,980	5,187,480	4,952,837	234,643
Fund Balance - End of year	\$ 2,409,973	\$ 2,568,953	\$ 2,690,086	\$ 121,133

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Community Development Block Grant Fund Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows) - Federal sources	1,430,890	839,780	690,018	(149,762)
Charges to Appropriations (Outflows)				
Administrative expenses	131,780	88,670	90,517	(1,847)
Books	7,380	7,380	7,224	156
Senior Citizens Home Chore	25,870	25,870	19,795	6,075
Handicapped Recreation Program	22,900	22,900	22,900	-
Single Parent Education Program	29,960	29,960	29,959	1
Housing Rehabilitation Program	453,410	145,030	68,172	76,858
Minor Home Repair	25,000	25,000	23,052	1,948
Awards to nonprofit organizations	25,920	25,920	24,423	1,497
Capital improvements	381,110	141,490	76,417	65,073
Principal	305,000	305,000	305,000	-
Interest	22,560	22,560	22,559	1
Total charges to appropriations (outflows)	<u>1,430,890</u>	<u>839,780</u>	<u>690,018</u>	<u>149,762</u>
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Sterling Heights, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress June 30, 2011

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued		Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Annual Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
		Liability (AAL) (b)	AAL (UAAL) (b-a)				Underfunded/ (Overfunded)

General Employees' Retirement System

12/31/05	\$ 107,739,690	\$ 89,249,361	\$ (18,490,329)	120.7	\$ 15,012,036	(123.2)
12/31/06	118,968,737	95,810,183	(23,158,554)	124.2	15,382,785	(150.5)
12/31/07	127,671,503	102,000,980	(25,670,523)	125.2	15,406,591	(166.6)
12/31/08	123,523,191	112,085,828	(11,437,363)	110.2	14,794,008	(77.3)
12/31/09	121,518,199	114,380,940	(7,137,259)	106.2	15,000,778	(47.6)
12/31/10	119,072,680	119,558,268	485,588	99.6	13,709,541	3.5

Police and Fire Retirement System

12/31/05	\$ 194,145,450	\$ 158,517,125	\$ (35,628,325)	122.5	\$ 19,787,496	(180.1)
12/31/06	204,756,058	156,707,512	(48,048,546)	130.7	19,837,496	(242.2)
12/31/07	212,365,515	170,201,230	(42,164,285)	124.8	20,979,120	(201.0)
12/31/08	202,192,211	212,914,310	10,722,099	95.0	22,064,557	48.6
12/31/09	193,164,045	227,549,069	34,385,024	84.9	22,510,638	152.7
12/31/10	185,750,293	237,994,618	52,244,325	78.0	22,432,921	232.9

Retiree Medical Benefits Trust

12/31/08	\$ 17,328,970	\$ 160,689,774	\$ 143,360,804	10.8	\$ 46,814,550	306.2
12/31/10	38,675,481	178,487,654	139,812,173	21.7	43,400,000	322.1

City of Sterling Heights, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress (Continued) June 30, 2011

General Employees' Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
06/30/06	12/31/04	\$ -	100.0
06/30/07	12/31/05	\$ -	100.0
06/30/08	12/31/06	\$ -	100.0
06/30/09	12/31/07	\$ -	100.0
06/30/10	12/31/08	204,054	100.0
06/30/11	12/31/09	486,096	100.0

Police and Fire Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
06/30/06	12/31/04	\$ 2,993,592	100.0
06/30/07	12/31/05	2,646,459	100.0
06/30/08	12/31/06	1,707,910	100.0
06/30/09	12/31/07	2,594,194	100.0
06/30/10	12/31/08	4,925,570	100.0
06/30/11	12/31/09	6,135,053	100.0

Retiree Medical Benefits Trust

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
06/30/09	12/31/06	\$ 11,265,740	100.0
06/30/10	12/31/08	11,604,200	100.0
06/30/11	12/31/08	12,070,700	100.0

City of Sterling Heights, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress (Continued) June 30, 2011

The information presented was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuations, December 31, 2010 for the General Employees' Retirement and the Police and Fire Retirement Systems and as of December 31, 2010 for the Retiree Medical Benefits Trust, is as follows:

General Employees' Retirement System

Actuarial cost method	Entry age
Amortization method	Level dollar
Amortization period (perpetual)	20 years (closed)
Asset valuation method	Five-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	4.5% - 13.0%
*Includes inflation at	4.0%
Cost-of-living adjustments	None

Police and Fire Retirement System

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	25 years
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	17.0% - 4.0%
*Includes inflation at	3.0%
Cost-of-living adjustments	None

Retiree Medical Benefits Trust

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	30 years
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	4.0% - 20.0%
*Includes inflation at	4.0%
Cost-of-living adjustments	None

City of Sterling Heights, Michigan

Note to Required Supplemental Information

June 30, 2011

Note - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds.

The City adopts its budget by budgetary center for the General Fund, special revenue funds, debt service funds, and capital projects funds, which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to April 1, the City manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- A public hearing is conducted to obtain taxpayer comments.
- Prior to May 10, the budget is legally adopted by the City Council through adoption of the appropriation ordinance.
- The City manager is authorized to transfer budgeted amounts within budgetary centers (activity); however, any revisions that alter the total expenditure of any budgetary center (activity) must be approved by the City Council.

Budgeted amounts of the revenue and expenditures presented for the General Fund, special revenue, debt service, and capital projects funds are a summarization of the budgeted amounts as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original appropriations that were adopted. Budget appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenue and expenditures, including budget variances, for the General Fund and major special revenue funds is presented as required supplemental information. The budget presented as required supplemental information reflects greater detail than the amended budget adopted.

Encumbrance accounting is employed in all governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

City of Sterling Heights, Michigan

Note to Required Supplemental Information **June 30, 2011**

Note - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>
General Fund:		
Public works department	\$ 7,926,200	\$ 7,951,685
Refuse collection	<u>4,429,880</u>	<u>4,450,356</u>
Total General Fund	<u>\$ 12,356,080</u>	<u>\$ 12,402,041</u>
Major Road Fund - Administration	<u>\$ 130,410</u>	<u>\$ 142,343</u>

The General Fund had unfavorable variances in the activity of:

- Public works attributable to efforts to reduce inventory in order to close the City's General Store as well as unanticipated building maintenance costs close to year end.
- Refuse collection due to increased costs of street sweepings and related hauling costs.

The Major Roads Fund had an unfavorable variance in administration costs due to increased costs of road repairs resulting from severe weather and an aging road system.

Other Financial and Supplemental Information

Nonmajor Governmental Funds

City of Sterling Heights, Michigan

Nonmajor Special Revenue Funds						
	Local Roads	Energy Efficiency Community Block Grant	Public Safety Forfeiture	Neighborhood Stabilization Fund	Total Nonmajor Special Revenue Funds	
Assets						
Cash and cash equivalents	\$ 454,816	\$ -	\$ 509,968	\$ -	\$ 964,784	
Investments	-	-	-	-	-	
Receivables:						
Special assessments:						
Current	34,135	-	-	-	34,135	
Deferred	170,674	-	-	-	170,674	
Accrued interest	12,289	-	-	-	12,289	
Prepaid costs and other assets	62	-	-	25,000	25,062	
Due from other funds	-	-	1,269	-	1,269	
Due from other governmental units	288,901	279,620	-	4,905	573,426	
Inventories	-	-	107,416	-	107,416	
Total assets	\$ 960,877	\$ 279,620	\$ 618,653	\$ 29,905	\$ 1,889,055	
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 15,555	\$ 277,898	\$ 36,664	\$ 2,700	\$ 332,817	
Due to other funds	48,323	1,722	-	27,205	77,250	
Deferred revenue	170,736	-	-	-	170,736	
Total liabilities	234,614	279,620	36,664	29,905	580,803	
Fund Balances						
Nonspendable - Inventory	-	-	107,416	-	107,416	
Restricted for:						
Road improvements	726,263	-	-	-	726,263	
Public safety	-	-	474,573	-	474,573	
Debt service	-	-	-	-	-	
Committed - Park acquisitions and improvements	-	-	-	-	-	
Total fund balances	726,263	-	581,989	-	1,308,252	
Total liabilities and fund balances	\$ 960,877	\$ 279,620	\$ 618,653	\$ 29,905	\$ 1,889,055	

Other Financial and Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011

Nonmajor Debt Service Funds

General Drain	Voted Tax General Obligation	Limited Tax General Obligation	Total Nonmajor Debt Service Funds	Nonmajor Capital	
				Projects - Land and Water Conservation	Total Nonmajor Governmental Funds
\$ 5,872	\$ 9,092	\$ 247	\$ 15,211	\$ 285,736	\$ 1,265,731
-	-	-	-	499,498	499,498
-	-	-	-	-	34,135
-	-	-	-	-	170,674
-	-	-	-	135	12,424
-	-	-	-	2,508	27,570
-	-	-	-	-	1,269
-	-	-	-	-	573,426
-	-	-	-	-	107,416
\$ 5,872	\$ 9,092	\$ 247	\$ 15,211	\$ 787,877	\$ 2,692,143
\$ 1,617	\$ 426	\$ -	\$ 2,043	\$ 54,304	\$ 389,164
1,192	103	-	1,295	-	78,545
-	-	-	-	-	170,736
2,809	529	-	3,338	54,304	638,445
-	-	-	-	-	107,416
-	-	-	-	-	726,263
-	-	-	-	-	474,573
3,063	8,563	247	11,873	-	11,873
-	-	-	-	733,573	733,573
3,063	8,563	247	11,873	733,573	2,053,698
\$ 5,872	\$ 9,092	\$ 247	\$ 15,211	\$ 787,877	\$ 2,692,143

City of Sterling Heights, Michigan

Nonmajor Special Revenue Funds						
	Local Roads	Energy Efficiency Community Block Grant	Public Safety Forfeiture	Neighborhood Stabilization Fund	Total Nonmajor Special Revenue Funds	
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	476,799	162,043	813,596	1,452,438	
State sources	1,874,138	-	63,024	-	1,937,162	
Interest income	1,828	-	-	-	1,828	
Special assessments	34,135	-	-	-	34,135	
Other	75,417	-	-	-	75,417	
Total revenue	1,985,518	476,799	225,067	813,596	3,500,980	
Expenditures						
Current:						
Public safety	-	-	85,691	-	85,691	
Public works	1,836,142	-	-	793,017	2,629,159	
Other	-	8,550	-	-	8,550	
Capital outlay	1,087,489	468,249	365,327	20,579	1,941,644	
Debt service	-	-	-	-	-	
Total expenditures	2,923,631	476,799	451,018	813,596	4,665,044	
Excess of Expenditures Over Revenue						
Revenue	(938,113)	-	(225,951)	-	(1,164,064)	
Other Financing Sources -						
Interfund transfers in	475,000	-	-	-	475,000	
Change in Fund Balances						
Fund Balances - Beginning of year	(463,113)	-	(225,951)	-	(689,064)	
Fund Balances - End of year	1,189,376	-	807,940	-	1,997,316	
Fund Balances - End of year	\$ 726,263	\$ -	\$ 581,989	\$ -	\$ 1,308,252	

**Other Financial and Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2011**

Nonmajor Debt Service Funds							Nonmajor Capital Projects - Land and Water Conservation		Total Nonmajor Governmental Funds	
	General Drain	Voted Tax General Obligation	Limited Tax General Obligation	Total Nonmajor Debt Service Funds						
\$	1,164,592	\$ 318,171	\$ -	\$ 1,482,763	\$ -	\$ -			\$ 1,482,763	
	-	-	-	-	-	-			1,452,438	
	-	-	-	-	-	-			1,937,162	
	10,073	2,569	3	12,645	5,245	5,245			19,718	
	-	-	-	-	-	-			34,135	
	-	-	-	-	-	-			75,417	
	<u>1,174,665</u>	<u>320,740</u>	<u>3</u>	<u>1,495,408</u>	<u>5,245</u>	<u>5,245</u>			<u>5,001,633</u>	
	-	-	-	-	-	-			85,691	
	-	-	-	-	-	-			2,629,159	
	8,663	2,129	387	11,179	-	-			19,729	
	-	-	-	-	131,237	131,237			2,072,881	
	<u>1,183,063</u>	<u>329,500</u>	<u>617,554</u>	<u>2,130,117</u>	<u>-</u>	<u>-</u>			<u>2,130,117</u>	
	<u>1,191,726</u>	<u>331,629</u>	<u>617,941</u>	<u>2,141,296</u>	<u>131,237</u>	<u>131,237</u>			<u>6,937,577</u>	
	(17,061)	(10,889)	(617,938)	(645,888)	(125,992)	(125,992)			(1,935,944)	
	<u>20,000</u>	<u>10,000</u>	<u>617,940</u>	<u>647,940</u>	<u>-</u>	<u>-</u>			<u>1,122,940</u>	
	2,939	(889)	2	2,052	(125,992)	(125,992)			(813,004)	
	<u>124</u>	<u>9,452</u>	<u>245</u>	<u>9,821</u>	<u>859,565</u>	<u>859,565</u>			<u>2,866,702</u>	
\$	<u>3,063</u>	<u>\$ 8,563</u>	<u>\$ 247</u>	<u>\$ 11,873</u>	<u>\$ 733,573</u>	<u>\$ 733,573</u>			<u>\$ 2,053,698</u>	

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds Year Ended June 30, 2011

Special Revenue Fund - Local Roads

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 1,189,376	\$ 1,189,376	\$ 1,189,376	\$ -
Resources (Inflows)				
State sources	1,785,000	1,835,000	1,874,138	39,138
Charges for services	55,000	65,000	61,830	(3,170)
Other	52,570	49,070	49,550	480
Transfer from other funds	475,000	475,000	475,000	-
Total resources (inflows)	2,367,570	2,424,070	2,460,518	36,448
Charges to Appropriations (Outflows)				
Administration	149,380	149,380	147,388	1,992
Local street maintenance	1,597,500	1,842,500	1,688,754	153,746
Local street improvements	1,075,000	1,088,410	1,087,489	921
Total charges to appropriations (outflows)	2,821,880	3,080,290	2,923,631	156,659
Fund Balance - End of year	<u>\$ 735,066</u>	<u>\$ 533,156</u>	<u>\$ 726,263</u>	<u>\$ 193,107</u>

Special Revenue Fund - Energy Efficiency Block Grant Fund

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows) - Federal sources				
Federal sources	1,095,300	463,430	476,799	13,369
Charges to Appropriations (Outflows) -				
Administration and improvements	1,095,300	463,430	476,799	(13,369)
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2011

Special Revenue Fund - Public Safety Forfeiture Fund

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 807,940	\$ 807,940	\$ 807,940	\$ -
Resources (Inflows)				
Federal forfeitures	-	127,810	161,679	33,869
State forfeitures	-	34,710	44,474	9,764
OWI forfeitures	-	12,600	18,250	5,650
Interest income	3,810	710	664	(46)
Total resources (inflows)	3,810	175,830	225,067	49,237
Charges to Appropriations (Outflows)				
Federal forfeiture expenditures	329,740	360,230	331,653	28,577
State forfeiture expenditures	98,800	131,900	106,881	25,019
Gambling forfeiture expenditures	-	1,850	1,829	21
OWI forfeiture expenditures	6,100	10,810	10,655	155
Total charges to appropriations (outflows)	434,640	504,790	451,018	53,772
Fund Balance - End of year	\$ 377,110	\$ 478,980	\$ 581,989	\$ 103,009

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2011

Special Revenue Fund - Neighborhood Stabilization Fund

	Original Budget	Final Budget	Actual	Variance with Final Budget
				Positive (Negative)
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows) - Federal sources	1,194,730	874,550	813,596	(60,954)
Charges to Appropriations (Outflows)				
Downpayment and rehabilitation assistance	270,000	89,620	89,616	4
Acquisition, rehabilitation, and resale	363,620	701,400	647,663	53,737
Acquisition and redevelopment	414,120	51,700	48,858	2,842
Demolition	30,000	-	-	-
Administration costs	116,990	31,830	27,459	4,371
Total charges to appropriations (outflows)	1,194,730	874,550	813,596	60,954
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Debt Service Fund - General Drain

	Original Budget	Final Budget	Actual	Variance with Final Budget
				Positive (Negative)
Fund Balance - Beginning of year	\$ 124	\$ 124	\$ 124	\$ -
Resources (Inflows)				
Property taxes	1,184,160	1,157,160	1,159,127	1,967
Other revenue	6,300	14,300	15,538	1,238
Transfer from other funds	-	20,000	20,000	-
Total resources (inflows)	1,190,460	1,191,460	1,194,665	3,205
Charges to Appropriations (Outflows)				
Other charges	7,400	7,930	8,663	(733)
Principal	980,000	980,000	980,000	-
Interest	203,060	203,060	203,063	(3)
Total charges to appropriations (outflows)	1,190,460	1,190,990	1,191,726	(736)
Fund Balance - End of year	<u>\$ 124</u>	<u>\$ 594</u>	<u>\$ 3,063</u>	<u>\$ 2,469</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2011

Debt Service Fund - Voted Tax General Obligation

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 9,452	\$ 9,452	\$ 9,452	\$ -
Resources (Inflows)				
Property taxes	324,850	316,850	317,413	563
Delinquents and penalties	300	300	758	458
Other revenue	1,000	2,600	2,569	(31)
Transfers from other funds	-	10,000	10,000	-
Total resources (inflows)	326,150	329,750	330,740	990
Charges to Appropriations (Outflows)				
Proposal F	330,850	330,850	330,076	774
Proposal R	300	5,300	1,553	3,747
Total charges to appropriations (outflows)	331,150	336,150	331,629	4,521
Fund Balance - End of year	\$ 4,452	\$ 3,052	\$ 8,563	\$ 5,511

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2011

Debt Service Fund - Limited Tax General Obligation

	Original Budget	Final Budget	Actual	Variance with Final Budget	Positive (Negative)
Fund Balance - Beginning of year	\$ 245	\$ 245	\$ 245	\$ -	-
Resources (Inflows)					
Other revenue	- -	- -	3 3	3 3	
Transfer from other funds	617,940	617,940	617,940	- -	
Total resources (inflows)	617,940	617,940	617,943	3	
Charges to Appropriations (Outflows)					
Other charges	390 390	390 390	387 387	3 3	
Principal	485,000 485,000	485,000 485,000	485,000 485,000	- -	
Interest	132,550 132,550	132,550 132,550	132,554 132,554	(4) (4)	
Total charges to appropriations (outflows)	617,940	617,940	617,941	(1)	
Fund Balance - End of year	\$ 245	\$ 245	\$ 247	\$ 2	

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2011

Capital Projects Fund - Land and Water Conservation Fund

	Original Budget	Final Budget	Actual	Variance with Final Budget	Positive (Negative)
Fund Balance - Beginning of year	\$ 859,565	\$ 859,565	\$ 859,565	\$ -	-
Resources (Inflows)					
Federal and state sources	62,500	-	-	-	-
Other	5,000	5,000	5,245	245	245
Total resources (inflows)	67,500	5,000	5,245	245	245
Charges to Appropriations (Outflows) -					
Land improvements	348,500	219,700	131,237	88,463	88,463
Fund Balance - End of year	\$ 578,565	\$ 644,865	\$ 733,573	\$ 88,708	88,708

Major Funds

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Major Debt Service and Capital Projects Funds Year Ended June 30, 2011

Debt Service Fund - Road Bond Debt Retirement

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 369,556	\$ 369,556	\$ 369,556	\$ -
Resources (Inflows)				
Other revenue	177,580	136,920	132,222	(4,698)
Special assessments	149,830	151,220	151,220	-
Federal sources	-	28,290	28,288	(2)
Transfer from other funds	<u>2,480,000</u>	<u>2,480,000</u>	<u>2,480,000</u>	<u>-</u>
Total resources (inflows)	2,807,410	2,796,430	2,791,730	(4,700)
Charges to Appropriations (Outflows)				
Other	1,850	1,600	1,600	-
Principal	2,055,000	2,050,000	2,050,000	-
Interest	<u>705,740</u>	<u>683,380</u>	<u>683,379</u>	<u>1</u>
Total charges to appropriations (outflows)	2,762,590	2,734,980	2,734,979	1
Fund Balance - End of year	<u>\$ 414,376</u>	<u>\$ 431,006</u>	<u>\$ 426,307</u>	<u>\$ (4,699)</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Major Debt Service and Capital Projects Funds (Continued) Year Ended June 30, 2011

Capital Projects Fund - General Improvements

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 2,503,353	\$ 2,503,353	\$ 2,503,353	\$ -
Resources (Inflows)				
Federal, state, and local sources	753,400	1,574,940	1,003,432	(571,508)
Penalties and interest	1,000	1,000	411	(589)
Other revenue	684,200	359,200	198,344	(160,856)
Transfer from other funds	351,000	351,000	351,000	-
Total resources (inflows)	1,789,600	2,286,140	1,553,187	(732,953)
Charges to Appropriations (Outflows)				
Capital equipment	830,000	1,863,600	1,286,068	577,532
Capital vehicles	381,000	209,780	208,295	1,485
Capital projects	910,000	608,240	448,468	159,772
Total charges to appropriations (outflows)	2,121,000	2,681,620	1,942,831	738,789
Fund Balance - End of year	\$ 2,171,953	\$ 2,107,873	\$ 2,113,709	\$ 5,836

Capital Projects Fund - Road Bond Construction

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 996,356	\$ 996,356	\$ 996,356	\$ -
Resources (Inflows) - Other revenue				
Other revenue	4,000	4,000	3,337	(663)
Charges to Appropriations (Outflows) -				
Capital outlay	603,000	337,860	242,465	95,395
Fund Balance - End of year	\$ 397,356	\$ 662,496	\$ 757,228	\$ 94,732

Fiduciary and Agency Funds

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Fiduciary Net Assets Trust Funds June 30, 2011

	Trust Funds			
	Pension and Other Retirement Benefits Funds			
	General	Police and Fire	Retiree Medical	
	Employees' Retirement System	Retirement System	Benefits	Total
Assets				
Cash and cash equivalents	\$ 5,287,572	\$ 16,541,278	\$ 2,278,931	\$ 24,107,781
Investments - At fair value:				
Government securities	17,557,088	21,325,863	4,208,558	43,091,509
Mutual funds	7,274,838	10,882,551	2,157,143	20,314,532
Corporate bonds	5,366,603	5,419,145	2,975,922	13,761,670
Common and preferred stocks	77,235,030	112,761,039	31,419,437	221,415,506
Pooled investments	-	6,578,889	-	6,578,889
Receivables - Accrued interest	118,139	177,314	-	295,453
Total assets	112,839,270	173,686,079	43,039,991	329,565,340
Liabilities				
Accounts payable	661,684	1,238,995	118,032	2,018,711
Accrued and other liabilities	445,330	867,343	12,975	1,325,648
Due to other governmental units	-	-	595,450	595,450
Provision for uninsured losses and liabilities	-	-	608,034	608,034
Deferred revenue	11,493	-	-	11,493
Total liabilities	1,118,507	2,106,338	1,334,491	4,559,336
Net Assets - Held in trust for pension and other retirement benefits	\$ 111,720,763	\$ 171,579,741	\$ 41,705,500	\$ 325,006,004

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Changes in Fiduciary Net Assets Trust Funds Year Ended June 30, 2011

	General				
	Employees' Retirement System	Police and Fire Retirement System	Retiree Medical Benefits		Total
Additions					
Investment income (loss):					
Interest and dividends	\$ 2,802,621	\$ 3,501,739	\$ 821,750	\$ 7,126,110	
Net adjustment to fair value of investments	17,610,068	26,240,436	6,770,721	50,621,225	
Less investment expenses	<u>(609,706)</u>	<u>(922,036)</u>	<u>(281,576)</u>	<u>(1,813,318)</u>	
Net investment income	19,802,983	28,820,139	7,310,895	55,934,017	
Securities lending income:					
Interest and fees	6,348	14,920	-	21,268	
Less borrower rebates and bank fees	<u>(4,106)</u>	<u>(9,743)</u>	<u>-</u>	<u>(13,849)</u>	
Net securities lending income	2,242	5,177	-	7,419	
Contributions:					
Employer	486,096	6,135,053	12,070,700	18,691,849	
Employee	720,634	1,166,086	-	1,886,720	
Purchase of prior year's service credits	14,874	628,298	-	643,172	
Insurance recovery	<u>-</u>	<u>-</u>	<u>186,748</u>	<u>186,748</u>	
Total additions - Net	21,026,829	36,754,753	19,568,343	77,349,925	
Deductions					
Benefit payments	7,220,270	13,304,517	6,764,806	27,289,593	
Withdrawals and refunds of contributions	<u>1,064,872</u>	<u>303,801</u>	<u>-</u>	<u>1,368,673</u>	
Total deductions	8,285,142	13,608,318	6,764,806	28,658,266	
Net Change in Net Assets	12,741,687	23,146,435	12,803,537	48,691,659	
Net Assets - Beginning of year	<u>98,979,076</u>	<u>148,433,306</u>	<u>28,901,963</u>	<u>276,314,345</u>	
Net Assets - End of year	<u>\$ 111,720,763</u>	<u>\$ 171,579,741</u>	<u>\$ 41,705,500</u>	<u>\$ 325,006,004</u>	

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Fiduciary Assets and Liabilities Agency Funds June 30, 2011

	Agency Funds		
	Tax	General Agency	Total
Assets			
Cash and cash equivalents	\$ 19,575	\$ 1,510,649	\$ 1,530,224
Investments - At fair value -			
Short-term investment funds	-	1,602,217	1,602,217
Receivables - Accrued interest	-	1,878	1,878
Due from other governmental units	<u>-</u>	<u>12,030</u>	<u>12,030</u>
Total assets	<u>\$ 19,575</u>	<u>\$ 3,126,774</u>	<u>\$ 3,146,349</u>
Liabilities			
Accrued and other liabilities	\$ -	\$ 1,316,033	\$ 1,316,033
Due to other governmental units	19,575	17,403	36,978
Cash bonds and deposits	<u>-</u>	<u>1,793,338</u>	<u>1,793,338</u>
Total liabilities	<u>\$ 19,575</u>	<u>\$ 3,126,774</u>	<u>\$ 3,146,349</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Changes in Assets and Liabilities Agency Funds Year Ended June 30, 2011

	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
<u>Tax Collection</u>				
Assets				
Cash and cash equivalents	\$ 23,724	\$ 152,388,426	\$ 152,392,575	\$ 19,575
Due from other governmental units	100	-	100	-
	<u>\$ 23,824</u>	<u>\$ 152,388,426</u>	<u>\$ 152,392,675</u>	<u>\$ 19,575</u>
Liabilities				
Accrued and other liabilities	\$ 3	\$ 796,024	\$ 796,027	\$ -
Due to other governmental units	23,821	209,939,401	209,943,647	19,575
Total liabilities	<u>\$ 23,824</u>	<u>\$ 210,735,425</u>	<u>\$ 210,739,674</u>	<u>\$ 19,575</u>
<u>General Agency</u>				
Assets				
Cash and cash equivalents	\$ 1,944,623	\$ 10,389,121	\$ 10,823,095	\$ 1,510,649
Investments - At fair value	1,348,220	9,202,210	8,948,214	1,602,216
Accrued interest	1,879	-	-	1,879
Due from other governmental units	9,508	16,969,556	16,967,034	12,030
Total assets	<u>\$ 3,304,230</u>	<u>\$ 36,560,887</u>	<u>\$ 36,738,343</u>	<u>\$ 3,126,774</u>
Liabilities				
Accrued and other liabilities	\$ 1,283,306	\$ 1,184,218	\$ 1,151,491	\$ 1,316,033
Due to other governmental units	10,444	17,403	10,444	17,403
Cash and bond deposits	2,010,480	6,787,216	7,004,358	1,793,338
Total liabilities	<u>\$ 3,304,230</u>	<u>\$ 7,988,837</u>	<u>\$ 8,166,293</u>	<u>\$ 3,126,774</u>
<u>Totals - All Agency Funds</u>				
Assets				
Cash and cash equivalents	\$ 1,968,347	\$ 162,777,547	\$ 163,215,670	\$ 1,530,224
Investments - At fair value	1,348,220	9,202,210	8,948,214	1,602,216
Accrued interest	1,879	-	-	1,879
Due from other governmental units	9,608	16,969,556	16,967,134	12,030
Total assets	<u>\$ 3,328,054</u>	<u>\$ 188,949,313</u>	<u>\$ 189,131,018</u>	<u>\$ 3,146,349</u>
Liabilities				
Accrued and other liabilities	\$ 1,283,309	\$ 1,980,242	\$ 1,947,518	\$ 1,316,033
Due to other governmental units	34,265	209,956,804	209,954,091	36,978
Cash and bond deposits	2,010,480	6,787,216	7,004,358	1,793,338
Total liabilities	<u>\$ 3,328,054</u>	<u>\$ 218,724,262</u>	<u>\$ 218,905,967</u>	<u>\$ 3,146,349</u>

City of Sterling Heights, Michigan

Statistical Information and Continuing Disclosure Contents

STATISTICAL INFORMATION

Statistical information contained herein relates to the physical, economic, social, and political characteristics of the City. It is designed to provide a broader and more complete understanding of the City and its financial affairs than is possible from the financial statements, notes, and supporting schedules presented in the financial section.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Net Assets by Component	105
Changes in Net Assets	106-107
Fund Balances of Governmental Funds	108
Changes in Fund Balances of Governmental Funds	109-110*
General Governmental Tax Revenue by Source	111

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

Property Tax Levies and Collections	112*
Property Tax Rates - Direct and Overlapping Governments	113-114*
Assessed Taxable Values (History of Property Values)	115-116*
Principal Property Taxpayers (Major Taxpayers)	117*

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Ratios of Net General Bonded Debt Outstanding	118
Ratios of Outstanding Debt by Type	119
Direct and Overlapping Governmental Activities Debt	120*
Legal Debt Margin	121*
Legal Debt Margin Information	122
Pledged Revenue Coverage	123

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Demographic and Economic Statistics	124
Miscellaneous Demographics	125
Principal Employers (Major Employers)	126*

* Indicates schedules included in statistical information that fulfill continuing disclosure requirements.

City of Sterling Heights, Michigan

Statistical Information and Continuing Disclosure Contents (Continued)

STATISTICAL INFORMATION (CONTINUED)

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

Operating Indicators by Function	127-128
Capital Asset Statistics by Function	129
Building Permits at Market Value	130
Full-time Equivalent City Government Employees by Function	131

CONTINUING DISCLOSURE 132

Continuing disclosure information contained herein complies with Rule 15c2-12, a federal regulation promulgated by the Securities and Exchange Commission, designed to improve disclosure practices in the municipal bond market. Municipal bonds issued after July 3, 1995 are subject to this mandatory requirement.

Continuing disclosure requires certain annual financial information and operating data, including audited financial statements for the preceding fiscal year. This information is generally consistent with the information contained or cross-referenced in the official statement relating to the bonds.

State-shared Revenue	133
Gas and Weight Taxes	133
Labor Agreements	134

Statistical Information

City of Sterling Heights, Michigan

Net Assets by Component Last Ten Fiscal Years (Accrual Basis of Accounting)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental activities:										
Invested in capital assets -										
Net of related debt	\$ 149,115,930	\$ 157,319,066	\$ 164,071,091	\$ 165,784,014	\$ 171,697,125	\$ 175,544,446	\$ 175,084,518	\$ 173,670,878	\$ 169,230,936	\$ 166,882,162
Restricted	18,041,590	13,918,356	8,845,442	5,537,300	13,956,025	6,601,883	12,015,678	10,040,331	9,733,081	9,413,052
Unrestricted	27,748,112	29,284,871	(2,714,472)	(3,747,590)	7,320,525	20,524,819	19,437,952	19,880,753	34,565,371	31,667,843
Total governmental activities -	\$ 194,905,632	\$ 200,522,293	\$ 170,202,061	\$ 167,573,724	\$ 192,973,675	\$ 202,671,148	\$ 206,538,148	\$ 203,591,962	\$ 213,529,388	\$ 207,963,057
Business-type activities:										
Invested in capital assets -										
Net of related debt	\$ 127,892,311	\$ 131,088,312	\$ 135,546,803	\$ 135,416,064	\$ 139,088,895	\$ 137,413,059	\$ 135,723,619	\$ 133,050,974	\$ 130,990,910	\$ 128,950,328
Restricted	9,064,472	9,286,673	8,525,469	9,029,341	7,050,855	7,418,300	7,522,330	7,605,803	8,308,749	8,369,375
Unrestricted	22,169,256	24,155,268	23,976,948	23,607,368	28,265,921	29,163,010	29,337,877	26,385,878	25,732,829	24,334,830
Total business-type activities -	\$ 159,126,039	\$ 164,530,253	\$ 168,049,220	\$ 168,052,773	\$ 174,405,671	\$ 173,994,369	\$ 172,583,826	\$ 167,042,655	\$ 165,032,488	\$ 161,654,533
Primary government:										
Invested in capital assets -										
Net of related debt	\$ 277,008,241	\$ 288,407,378	\$ 299,617,894	\$ 301,200,078	\$ 310,786,020	\$ 312,957,505	\$ 310,808,137	\$ 306,721,852	\$ 300,221,846	\$ 295,832,490
Restricted	27,106,062	23,205,029	17,370,911	14,566,641	21,006,880	14,020,183	19,538,008	17,646,134	18,041,830	17,782,427
Unrestricted	49,917,368	53,440,139	21,262,476	19,859,778	35,586,446	49,687,829	48,775,829	46,266,631	60,298,200	56,002,673
Total primary government -	\$ 354,031,671	\$ 365,052,546	\$ 338,251,281	\$ 335,626,497	\$ 367,379,346	\$ 376,665,517	\$ 379,121,974	\$ 370,634,617	\$ 378,561,876	\$ 369,617,590

City of Sterling Heights, Michigan

	Fiscal Year				
	2002	2003	2004	2005	
Expenses					
Governmental activities:					
General government	\$ 7,958,782	\$ 8,710,448	\$ 9,499,251	\$ 9,873,718	
41A District Court	2,354,295	2,480,824	2,690,360	2,852,812	
Public safety	33,975,838	37,066,435	39,815,539	42,253,545	
Public works	22,945,588	22,555,042	22,838,480	25,464,111	
Recreation and culture	5,184,217	5,476,196	6,047,819	5,716,243	
Interest on long-term debt	2,243,791	2,266,350	2,022,258	2,585,777	
Total governmental activities expenses	74,662,511	78,555,295	82,913,707	88,746,206	
Business-type activities - Water and sewer	23,004,156	23,267,170	25,829,284	28,142,434	
Total primary government expenses	\$ 97,666,667	\$ 101,822,465	\$ 108,742,991	\$ 116,888,640	
Program Revenue					
Governmental activities:					
Charges for services:					
General government	\$ 830,931	\$ 709,161	\$ 714,601	\$ 844,263	
41A District Court	1,779,233	1,831,676	2,136,354	2,320,411	
Public safety	1,394,218	728,790	1,114,300	1,249,154	
Public works	4,922,913	3,566,606	3,855,774	6,241,366	
Recreation and culture	411,642	425,400	465,391	513,241	
Operating grants and contributions	8,803,688	8,811,085	10,284,432	9,547,201	
Capital grants and contributions	231,693	1,777,966	3,142,226	1,336,930	
Total governmental activities program revenue	18,374,318	17,850,684	21,713,078	22,052,566	
Business-type activities - Water and sewer:					
Charges for services	17,625,565	20,563,318	20,385,299	22,619,205	
Operating grants and contributions	-	30,806	-	-	
Capital grants and contributions	4,385,957	6,847,385	8,430,400	4,911,208	
Total business-type activities program revenue	22,011,522	27,441,509	28,815,699	27,530,413	
Total primary government program revenue	\$ 40,385,840	\$ 45,292,193	\$ 50,528,777	\$ 49,582,979	
Net (Expense) Revenue					
Governmental activities	\$ (56,288,193)	\$ (60,704,611)	\$ (61,200,629)	\$ (66,693,640)	
Business-type activities	(992,634)	4,174,339	2,986,415	(612,021)	
Total primary government net expense	\$ (57,280,827)	\$ (56,530,272)	\$ (58,214,214)	\$ (67,305,661)	
General Revenue and Other Changes in Net Assets					
Governmental activities:					
Property taxes	\$ 44,784,294	\$ 46,791,310	\$ 48,495,510	\$ 50,357,630	
State-shared revenue	13,315,069	14,431,298	11,249,778	11,127,156	
Interest	1,913,772	2,058,855	709,149	1,155,124	
Gain on disposal of capital assets	975,870	-	-	105,454	
Insurance proceeds	-	-	-	-	
Other nonprogram revenue	1,769,580	3,039,809	1,425,963	1,319,937	
Extraordinary item	-	-	(31,000,000)	-	
Total governmental activities expenses	62,758,585	66,321,272	30,880,400	64,065,301	
Business-type activities - Interest	1,036,950	1,229,875	532,552	615,574	
Total primary government	\$ 63,795,535	\$ 67,551,147	\$ 31,412,952	\$ 64,680,875	
Change in Net Assets					
Governmental activities	\$ 6,470,392	\$ 5,616,661	\$ (30,320,229)	\$ (2,628,339)	
Business-type activities	43,956	5,404,214	3,518,967	3,553	
Total primary government	\$ 6,514,348	\$ 11,020,875	\$ (26,801,262)	\$ (2,624,786)	

**Changes in Net Assets
Last Ten Fiscal Years
(Accrual Basis of Accounting)**

Fiscal Year							
	2006	2007	2008	2009	2010	2011	
\$	8,760,970	\$ 10,348,927	\$ 11,017,399	\$ 8,877,803	\$ 8,804,497	\$ 8,011,940	
2,864,422	2,992,184	3,164,448	3,251,224	3,470,065	3,523,447		
41,327,439	43,995,464	48,044,223	49,201,944	52,695,852	53,740,479		
24,181,418	22,603,155	24,083,515	24,904,207	25,269,096	26,062,500		
5,989,344	5,890,651	6,322,163	6,112,129	5,695,827	5,617,090		
2,463,042	1,922,125	1,921,428	1,956,286	1,086,571	1,192,797		
	85,586,635	87,752,506	94,553,176	94,303,593	97,021,908	98,148,253	
	28,106,435	30,290,386	32,784,120	32,292,608	30,901,624	33,562,610	
\$ 113,693,070	\$ 118,042,892	\$ 127,337,296	\$ 126,596,201	\$ 127,923,532	\$ 131,710,863		
\$	1,829,127	\$ 2,022,680	\$ 2,216,008	\$ 2,229,296	\$ 3,020,737	\$ 2,906,715	
2,424,477	2,185,724	2,351,225	2,426,813	2,985,409	2,888,076		
1,394,981	1,326,061	1,984,318	1,571,100	1,629,846	1,695,612		
6,813,150	8,125,228	6,363,346	2,869,634	2,545,211	2,295,345		
583,627	563,152	629,818	733,598	948,463	982,981		
9,184,599	9,148,913	8,525,230	8,957,951	9,676,314	9,091,234		
2,751,871	2,638,714	3,173,757	478,767	1,090,732	1,809,917		
	24,981,832	26,010,472	25,243,702	19,267,159	21,896,712	21,669,880	
	24,944,170	25,404,755	27,456,965	24,495,066	25,057,683	28,222,756	
	8,364,981	2,662,317	2,461,289	867,991	2,912,917	1,459,851	
	33,309,151	28,067,072	29,918,254	25,363,057	27,970,600	29,682,607	
\$ 58,290,983	\$ 54,077,544	\$ 55,161,956	\$ 44,630,216	\$ 49,867,312	\$ 51,352,487		
\$	(60,604,803)	\$ (61,742,034)	\$ (69,309,474)	\$ (75,036,434)	\$ (75,125,196)	\$ (76,478,373)	
	5,202,716	(2,223,314)	(2,865,866)	(6,929,551)	(2,931,024)	(3,880,003)	
\$ (55,402,087)	\$ (63,965,348)	\$ (72,175,340)	\$ (81,965,985)	\$ (78,056,220)	\$ (80,358,376)		
\$	52,574,000	\$ 55,624,617	\$ 58,331,682	\$ 57,875,942	\$ 56,801,307	\$ 59,196,747	
11,003,347	10,675,667	10,675,667	10,183,758	9,057,434	9,057,434		
2,034,936	3,383,824	3,075,919	2,278,601	1,098,458	707,426		
256,994	227,321	-	-	-	-		
18,763,736	-	-	-	16,318,640	-		
1,371,831	1,527,988	1,093,203	1,751,947	1,786,782	1,950,435		
	-	-	-	-	-	-	
	86,004,844	71,439,417	73,176,471	72,090,248	85,062,621	70,912,042	
	1,150,182	1,812,012	1,455,323	1,388,380	920,857	502,048	
\$ 87,155,026	\$ 73,251,429	\$ 74,631,794	\$ 73,478,628	\$ 85,983,478	\$ 71,414,090		
\$	25,400,041	\$ 9,697,383	\$ 3,866,997	\$ (2,946,186)	\$ 9,937,425	\$ (5,566,331)	
	6,352,898	(411,302)	(1,410,543)	(5,541,171)	(2,010,167)	(3,377,955)	
\$ 31,752,939	\$ 9,286,081	\$ 2,456,454	\$ (8,487,357)	\$ 7,927,258	\$ (8,944,286)		

City of Sterling Heights, Michigan

Fund Balances of Governmental Funds Last Ten Fiscal Years (Modified Accrual Basis of Accounting)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 (I)
General Fund:										
Reserved	\$ 489,404	\$ 580,930	\$ 593,593	\$ 655,400	\$ 662,581	\$ 679,962	\$ 643,564	\$ 767,986	\$ 1,005,948	\$ -
Unreserved	17,346,558	17,641,156	19,057,927	13,345,638	14,387,663	15,037,933	14,649,346	14,439,075	11,522,975	-
Nonspendable	-	-	-	-	-	-	-	-	-	861,449
Assigned	-	-	-	-	-	-	-	-	-	5,500,280
Unassigned	-	-	-	-	-	-	-	-	-	4,629,487
Total General Fund	<u>\$ 17,835,962</u>	<u>\$ 18,222,086</u>	<u>\$ 19,651,520</u>	<u>\$ 14,001,038</u>	<u>\$ 15,050,244</u>	<u>\$ 15,717,895</u>	<u>\$ 15,292,910</u>	<u>\$ 15,207,061</u>	<u>\$ 12,528,923</u>	<u>\$ 10,991,216</u>
All other governmental funds:										
Reserved	\$ 679,942	\$ 1,060,623	\$ 1,027,906	\$ 735,565	\$ 1,536,063	\$ 534,266	\$ 5,321,181	\$ 468,719	\$ 596,419	\$ -
Unreserved, reported in:										
Special Revenue Funds	20,268,530	15,588,126	10,981,941	5,168,955	2,547,940	5,810,853	6,950,614	4,665,274	5,168,942	-
Debt Service Funds	545,540	277,483	248,467	236,999	284,417	118,705	92,441	488,981	379,377	-
Capital Projects Funds	5,136,412	3,866,901	2,861,154	3,446,888	3,756,197	2,662,224	2,011,345	2,720,603	3,021,463	-
Nonspendable	-	-	-	-	-	-	-	-	-	463,096
Restricted	-	-	-	-	-	-	-	-	-	4,730,650
Committed	-	-	-	-	-	-	-	-	-	733,573
Assigned	-	-	-	-	-	-	-	-	-	2,113,709
Total all other governmental funds	<u>\$ 26,630,424</u>	<u>\$ 20,793,133</u>	<u>\$ 15,119,468</u>	<u>\$ 9,588,407</u>	<u>\$ 8,124,617</u>	<u>\$ 9,126,048</u>	<u>\$ 14,375,581</u>	<u>\$ 8,343,577</u>	<u>\$ 9,166,201</u>	<u>\$ 8,041,028</u>

(I) GASB 54 was implemented with the fiscal year ended June 30, 2011.

City of Sterling Heights, Michigan

	2002	2003	2004	2005
Revenue				
Property taxes	\$ 44,773,685	\$ 46,791,310	\$ 48,495,510	\$ 50,357,630
Fees and permits	1,916,542	2,036,864	2,318,120	2,012,360
Federal sources	1,280,774	752,977	1,629,936	2,069,321
State and local sources	20,676,922	20,161,887	20,176,008	19,607,043
Fines and forfeitures	2,299,389	2,587,756	3,069,824	2,995,613
Charges for services	5,514,851	5,875,269	6,334,722	6,695,039
Interest income	1,921,851	1,760,354	567,049	977,664
Special assessments	179,973	68,497	372,917	73,776
Rental income	1,047,761	1,253,148	1,298,796	1,566,845
Cable revenue	1,302,183	1,120,768	1,224,778	1,319,937
Reimbursement of advance road construction	-	-	-	-
Other	2,074,758	1,927,055	2,758,591	1,980,022
 Total revenue	 82,988,689	 84,335,885	 88,246,251	 89,655,250
Expenditures				
Current:				
General government	8,550,972	8,733,703	9,091,026	10,042,438
41A District Court	2,178,525	2,173,817	2,342,220	2,472,160
Public safety	30,913,608	33,857,315	35,779,556	38,346,169
Public works	16,910,029	18,334,751	18,280,775	21,418,948
Recreation and culture	4,323,476	4,447,809	4,553,035	4,669,116
General expenditures	2,539,196	2,771,249	3,388,336	2,651,054
Capital outlay	13,053,333	11,763,846	13,041,634	12,476,405
Debt service:				
Principal	5,051,381	4,466,382	4,436,681	5,056,539
Interest	2,243,791	1,968,669	1,827,203	2,334,584
 Total expenditures	 85,764,311	 88,517,541	 92,740,466	 99,467,413
Excess of Expenditures Over Revenue				
	(2,775,622)	(4,181,656)	(4,494,215)	(9,812,163)
Other Financing Sources (Uses)				
Long-term financing	1,725,000	4,916,772	30,355,000	13,720,000
Proceeds from sale of fixed assets	1,338,442	-	-	476,081
Bond premium	-	-	975,374	91,759
Net payments to refunded bond escrow				
agent and bond issuance costs	-	(4,916,772)	(5,075,000)	(8,511,067)
Transfers in	12,319,565	8,807,280	6,462,170	8,354,684
Transfers out	(12,319,565)	(8,807,280)	(6,462,170)	(6,639,684)
 Total other financing sources	 3,063,442	 -	 26,255,374	 7,491,773
Net Change in Fund Balances - Before extraordinary items				
	287,820	(4,181,656)	21,761,159	(2,320,390)
Extraordinary Items - Lawsuit settlement payments				
	-	-	(25,000,000)	(6,000,000)
Net Change in Fund Balances	\$ 287,820	\$ (4,181,656)	\$ (3,238,841)	\$ (8,320,390)
Debt Service as a Percentage of Noncapital Expenditures	10.03%	8.38%	7.86%	8.50%

Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

2006	2007	2008	2009	2010	2011
\$ 52,574,000	\$ 55,624,617	\$ 58,331,682	\$ 57,875,942	\$ 56,801,306	\$ 59,045,208
1,986,333	1,784,156	1,352,594	960,683	1,194,707	1,438,197
3,198,148	2,755,145	1,001,641	1,419,052	2,789,569	3,085,016
19,721,028	19,894,287	18,939,977	18,505,491	17,114,177	17,184,734
2,890,745	2,563,520	2,755,701	2,836,556	3,618,574	3,353,875
7,795,120	8,038,601	7,988,183	7,896,549	8,598,054	8,583,882
1,788,092	2,511,234	2,316,653	1,580,754	582,435	308,422
28,017	130,082	92,745	243,123	215,118	203,298
1,357,037	1,443,651	1,727,929	1,798,484	1,429,222	1,685,041
1,371,831	1,527,988	1,671,094	1,771,978	1,799,495	1,950,435
-	-	2,440,414	-	-	-
<u>1,731,700</u>	<u>1,511,396</u>	<u>1,755,645</u>	<u>2,007,807</u>	<u>1,898,739</u>	<u>1,526,205</u>
94,442,051	97,784,677	100,374,258	96,896,419	96,041,396	98,364,313
10,109,764	10,562,158	11,244,018	9,534,712	9,000,797	8,613,941
2,660,587	2,847,111	2,974,001	3,150,155	3,221,815	3,246,811
39,440,275	41,610,977	44,435,670	46,327,145	49,130,527	50,929,421
18,545,503	18,734,562	20,134,496	21,273,705	20,321,669	21,034,821
4,868,429	5,180,497	5,358,825	5,321,281	4,747,596	4,603,108
3,555,955	3,791,084	2,945,761	2,793,240	2,814,058	2,540,873
10,576,821	14,756,585	7,402,019	13,212,947	4,694,663	4,867,162
5,030,000	14,000,000	5,685,000	5,730,000	15,235,000	3,970,000
<u>2,479,375</u>	<u>2,336,756</u>	<u>1,938,403</u>	<u>1,987,533</u>	<u>1,628,030</u>	<u>1,221,055</u>
<u>97,266,709</u>	<u>113,819,730</u>	<u>102,118,193</u>	<u>109,330,718</u>	<u>110,794,155</u>	<u>101,027,192</u>
(2,824,658)	(16,035,053)	(1,743,935)	(12,434,299)	(14,752,759)	(2,662,879)
-	7,900,000	5,000,000	3,260,000	3,810,000	-
550,074	-	-	149,466	115,724	-
-	26,815	50,143	-	33,935	-
-	-	-	-	(2,200,000)	-
9,931,683	18,458,535	9,716,170	11,319,369	16,194,395	3,953,940
(8,071,683)	(8,681,215)	(8,197,830)	(8,412,389)	(5,056,810)	(3,953,940)
<u>2,410,074</u>	<u>17,704,135</u>	<u>6,568,483</u>	<u>6,316,446</u>	<u>12,897,244</u>	<u>-</u>
(414,584)	1,669,082	4,824,548	(6,117,853)	(1,855,515)	(2,662,879)
<u>\$ (414,584)</u>	<u>\$ 1,669,082</u>	<u>\$ 4,824,548</u>	<u>\$ (6,117,853)</u>	<u>\$ (1,855,515)</u>	<u>\$ (2,662,879)</u>
8.66%	16.49%	8.06%	8.05%	15.91%	5.41%

City of Sterling Heights, Michigan

General Government Tax Revenue by Source Last Ten Fiscal Years

Fiscal Year Ended June 30	General Fund Property Taxes				Debt Service Funds Property Taxes				Total All Property Taxes	
	Police and Fire Retirement System		Total	General Drain	Voted Tax		General Obligation	Total		
	Operating	Refuse			General	Obligation				
2002	\$ 35,424,907	\$ 4,396,245	\$ 1,579,658	\$ 41,400,810	\$ 1,295,294	\$ 2,077,581	\$ 3,372,875	\$ 44,773,685		
2003	36,500,172	4,660,074	2,746,657	43,906,903	1,435,644	1,448,763	2,884,407	46,791,310		
2004	37,409,166	4,881,818	3,564,147	45,855,131	1,536,014	1,104,365	2,640,379	48,495,510		
2005	38,420,002	5,203,504	4,204,831	47,828,337	1,429,947	1,099,346	2,529,293	50,357,630		
2006	43,370,304	4,070,410	2,993,592	50,434,306	1,202,642	937,052	2,139,694	52,574,000		
2007	46,585,168	4,205,469	2,646,459	53,437,096	1,214,130	973,391	2,187,521	55,624,617		
2008	50,198,476	4,359,680	1,707,910	56,266,066	1,089,261	976,355	2,065,616	58,331,682		
2009	49,275,429	4,476,793	2,594,194	56,346,416	1,169,602	359,924	1,529,526	57,875,942		
2010	45,954,154	4,561,110	4,925,570	55,440,834	1,178,018	182,454	1,360,472	56,801,306		
2011	47,431,652	4,377,125	5,753,668	57,562,445	1,164,592	318,171	1,482,763	59,045,208		

City of Sterling Heights, Michigan

Property Tax Levies and Collections Last Ten Fiscal Years

Tax Year	Fiscal Year Ended June 30	Total Tax Levy (1)	Collected Within the Fiscal Year of the Levy		Subsequent Collection of Delinquent Taxes	Total Collections	
			Amount	Percentage of Levy		to Date Amount	Percentage of Levy
2002	2003	\$ 46,900,401	\$ 45,827,067	97.71	\$ 710,729	\$ 46,537,796	99.23
2003	2004	48,561,542	47,590,646	98.00	680,399	48,271,045	99.40
2004	2005	50,166,920	49,462,142	98.60	679,140	50,141,282	99.95
2005	2006	52,325,289	51,316,165	98.07	962,656	52,278,821	99.91
2006	2007	55,485,078	54,001,323	97.33	1,329,962	55,331,285	99.72
2007	2008	58,015,198	56,193,561	96.86	1,735,471	57,929,032	99.85
2008	2009	57,729,407	56,018,807	97.04	1,666,768	57,685,575	99.93
2009	2010	56,676,434	54,863,230	96.80	1,746,957	56,610,187	99.88
2010	2011	59,971,190	57,008,661	95.06	1,609,784	58,618,445	97.74
2011	2012	55,919,742 (2)					

(1) Includes operational, refuse, public improvement, and general drain taxes, but does not include penalty and interest on late payment of taxes.

(2) The estimated tax levy is based on the summer tax receivable schedule. This levy will only change due to STC, MTT, and/or Board of Review adjustments and is included to facilitate continuing disclosure requirements.

Source: City Treasurer's Office

City of Sterling Heights, Michigan

Fiscal Year (Tax Year)	City Direct Rates							Overlapping Rates								
	Operating (I)		Police and Fire Retirement System			Public Drain Debt Service		Macomb	Macomb	Huron/ Clinton Metro S.M.A.R.T.		County Zoo Authority		Veterans Operations		Macomb County
	Operating (I)	Refuse	Retirement System	Drain Debt Service	Improvement Debt Service	Total	Intermediate School District	Community College	Authority	S.M.A.R.T.	Authority	Operations	Operating	Drain Debt Service		
2002 (2001)																
Homestead	8.4343	1.0467	0.3761	0.3070	0.4859	10.6500	2.0033	1.6707	0.2202	0.3273	0.0000	0.0000	4.2000	0.0060		
Non-homestead	8.4343	1.0467	0.3761	0.3070	0.4859	10.6500	2.0033	1.6707	0.2202	0.3273	0.0000	0.0000	4.2000	0.0060		
2003 (2002)																
Homestead	8.2923	1.0587	0.6240	0.3264	0.3286	10.6300	2.9863	1.6925	0.2170	0.6000	0.0000	0.0000	4.2000	0.0058		
Non-homestead	8.2923	1.0587	0.6240	0.3264	0.3286	10.6300	2.9863	1.6925	0.2170	0.6000	0.0000	0.0000	4.2000	0.0058		
2004 (2003)																
Homestead	8.1963	1.0696	0.7809	0.3366	0.2416	10.6250	2.9729	1.5859	0.2161	0.5973	0.0000	0.0000	4.2000	0.0058		
Non-homestead	8.1963	1.0696	0.7809	0.3366	0.2416	10.6250	2.9729	1.5859	0.2161	0.5973	0.0000	0.0000	4.2000	0.0058		
2005 (2004)																
Homestead	8.0957	1.1055	0.8905	0.3016	0.2317	10.6250	2.9615	1.5002	0.2154	0.5949	0.0000	0.0000	4.2000	0.0058		
Non-homestead	8.0957	1.1055	0.8905	0.3016	0.2317	10.6250	2.9615	1.5002	0.2154	0.5949	0.0000	0.0000	4.2000	0.0058		
2006 (2005)																
Homestead	8.7642	0.8266	0.6049	0.2413	0.1880	10.6250	2.9430	1.4212	0.2146	0.5912	0.0000	0.0000	4.2000	0.0058		
Non-homestead	8.7642	0.8266	0.6049	0.2413	0.1880	10.6250	2.9430	1.4212	0.2146	0.5912	0.0000	0.0000	4.2000	0.0058		
2007 (2006)																
Homestead	8.9776	0.8142	0.5118	0.2339	0.1875	10.7250	2.9430	1.4212	0.2146	0.5900	0.0000	0.0000	4.2000	0.0055		
Non-homestead	8.9776	0.8142	0.5118	0.2339	0.1875	10.7250	2.9430	1.4212	0.2146	0.5900	0.0000	0.0000	4.2000	0.0055		
2008 (2007)																
Homestead	9.2256	0.8057	0.3147	0.1998	0.1792	10.7250	2.9430	1.4212	0.2146	0.5900	0.0000	0.0000	4.2000	0.0055		
Non-homestead	9.2256	0.8057	0.3147	0.1998	0.1792	10.7250	2.9430	1.4212	0.2146	0.5900	0.0000	0.0000	4.2000	0.0055		
2009 (2008)																
Homestead	9.1777	0.8381	0.4853	0.2180	0.0667	10.7858	2.9430	1.4212	0.2146	0.5900	0.1000	0.0400	4.2000	0.0055		
Non-homestead	9.1777	0.8381	0.4853	0.2180	0.0667	10.7858	2.9430	1.4212	0.2146	0.5900	0.1000	0.0400	4.2000	0.0055		
2010 (2009)																
Homestead	8.7180	0.8717	0.9372	0.2243	0.0346	10.7858	2.9430	1.4212	0.2146	0.5900	0.1000	0.0400	4.5685	0.0050		
Non-homestead	8.7180	0.8717	0.9372	0.2243	0.0346	10.7858	2.9430	1.4212	0.2146	0.5900	0.1000	0.0400	4.5685	0.0050		
2011 (2010)																
Homestead	10.1811	0.9474	1.2388	0.2501	0.0684	12.6858	2.9430	1.5712	0.2146	0.5900	0.1000	0.0400	4.5685	0.0050		
Non-homestead	10.1811	0.9474	1.2388	0.2501	0.0684	12.6858	2.9430	1.5712	0.2146	0.5900	0.1000	0.0400	4.5685	0.0050		

(1) City general operating tax rate charter limit equals 12.0 mills.

(2) Sterling Heights taxable valuation is based on 62 percent for Utica Schools and 38 percent for Warren Consolidated Schools for the year ended June 30, 2010.

Source: Municipal Advisory Council of Michigan

**Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years**

Overlapping Rates										Total Direct and Overlapping Rates by Resident's School			
Utica Community School District (2)					Warren Consolidated School District (2)					District			
State Education Tax	Operating/ Local			Debt	State Education Tax			Operating/ Local	Supplemental	Sinking	Debt	Utica Community	Warren Consolidated
	Local	Supplemental	Debt		Local	Supplemental	Debt					Community	Consolidated
6.0000	0.0000	0.0000	3.5000	6.0000	0.0000	7.8971	0.0000	1.0000	28.5775	33.9746			
6.0000	18.0000	0.0000	3.5000	6.0000	18.0000	0.0000	0.0000	1.0000	46.5775	44.0775			
6.0000	0.0000	0.0000	3.5000	6.0000	0.0000	7.4662	0.9964	2.5000	29.8316	37.2942			
6.0000	18.0000	0.0000	3.5000	6.0000	18.0000	0.0000	0.9964	2.5000	47.8316	47.8280			
5.0000	0.0000	0.0000	3.5000	5.0000	0.0000	7.3342	0.9964	2.3500	28.7030	35.8836			
5.0000	18.0000	0.0000	3.5000	5.0000	18.0000	0.0000	0.9964	2.3500	46.7030	46.5494			
6.0000	0.0000	0.0000	3.5000	6.0000	0.0000	6.7662	0.9964	2.2800	29.6028	36.1454			
6.0000	18.0000	0.0000	3.5000	6.0000	18.0000	0.0000	0.9964	2.2800	47.6028	47.3792			
6.0000	0.0000	0.0000	3.5000	6.0000	0.0000	6.7166	0.9964	2.2800	29.5008	35.9938			
6.0000	17.9316	0.0000	3.5000	6.0000	18.0000	0.0000	0.9964	2.2800	47.4324	47.2772			
6.0000	0.0000	0.0000	3.5000	6.0000	0.0000	6.5530	0.9964	2.2800	29.5993	35.9287			
6.0000	17.9316	0.0000	3.5000	6.0000	18.0000	0.0000	0.9964	2.2800	47.5309	47.3757			
6.0000	0.0000	0.0000	3.5000	6.0000	0.0000	5.9594	0.9964	2.2800	29.5993	35.3351			
6.0000	17.9316	0.0000	3.5000	6.0000	18.0000	0.0000	0.9964	2.2800	47.5309	47.3757			
6.0000	0.0000	0.0000	3.5000	6.0000	0.0000	5.2688	0.9964	2.1500	29.8001	34.7153			
6.0000	17.9316	0.0000	3.5000	6.0000	18.0000	0.0000	0.9964	2.1500	47.7317	47.4465			
6.0000	0.0000	0.0000	3.5000	6.0000	0.0000	5.7814	0.9964	2.1500	30.1681	35.5959			
6.0000	17.9316	0.0000	3.5000	6.0000	18.0000	0.0000	0.9964	2.1500	48.0997	47.8145			
6.0000	0.0000	0.0000	3.8500	6.0000	0.0000	7.4057	0.9964	2.4400	32.5681	39.5602			
6.0000	17.9316	0.0000	3.8500	6.0000	18.0000	0.0000	0.9964	2.4400	50.4997	50.1545			

City of Sterling Heights, Michigan

	2002	2003	2004	2005	2006
State Equalized Value					
SEV equivalent	\$ 4,786,398,900	\$ 5,272,934,560	\$ 5,553,761,050	\$ 5,754,101,500	\$ 5,997,740,400
IFT exemption	261,109,300	259,867,600	226,175,750	221,346,700	225,091,700
Total SEV	\$ 5,047,508,200	\$ 5,532,802,160	\$ 5,779,936,800	\$ 5,975,448,200	\$ 6,222,832,100
Taxable Value					
By Class:					
Real property	\$ 3,356,956,900	\$ 3,587,248,700	\$ 3,764,758,000	\$ 3,970,808,500	\$ 4,195,815,400
Personal property	1,086,927,400	1,071,358,000	1,025,224,600	968,119,700	949,766,100
Total value	\$ 4,443,884,300	\$ 4,658,606,700	\$ 4,789,982,600	\$ 4,938,928,200	\$ 5,145,581,500
By Type:					
Residential	\$ 2,502,544,100	\$ 2,685,708,600	\$ 2,820,357,100	\$ 2,990,452,700	\$ 3,151,356,400
Commercial	465,723,900	496,719,500	529,584,800	548,866,900	588,205,000
Industrial	359,713,900	373,247,900	383,343,100	397,910,200	416,252,900
Personal property	593,683,800	583,195,500	607,793,500	567,204,500	548,022,100
IFT real and personal property	522,218,600	519,735,200	448,904,100	434,493,900	441,745,100
Total	4,443,884,300	4,658,606,700	4,789,982,600	4,938,928,200	5,145,581,500
Less exempt property	(261,109,300)	(259,867,600)	(224,452,050)	(217,246,950)	(220,872,550)
Total taxable value	\$ 4,182,775,000	\$ 4,398,739,100	\$ 4,565,530,550	\$ 4,721,681,250	\$ 4,924,708,950
Total direct tax rate (I)	\$ 10.65000	\$ 10.63000	\$ 10.62500	\$ 10.62500	\$ 10.62500

Total taxable value as a percentage of SEV equivalent	87.39%	83.42%	82.21%	82.06%	82.11%
Total taxable value as a percentage of total value	94.12%	94.42%	95.31%	95.60%	95.71%

(I) This rate is applied 100 percent to the total taxable value.

Source: City of Sterling Heights, Assessor's Office

**Assessed Taxable Values
(History of Property Values)
Last Ten Fiscal Years**

2007	2008	2009	2010	2011
\$ 6,230,684,225	\$ 6,380,752,375	\$ 5,940,796,525	\$ 5,555,163,580	\$ 4,879,206,305
<u>223,376,725</u>	<u>290,426,725</u>	<u>255,549,975</u>	<u>239,402,825</u>	<u>223,651,575</u>
<u>\$ 6,454,060,950</u>	<u>\$ 6,671,179,100</u>	<u>\$ 6,196,346,500</u>	<u>\$ 5,794,566,405</u>	<u>\$ 5,102,857,880</u>
\$ 4,451,151,600	\$ 4,645,291,550	\$ 4,599,077,850	\$ 4,508,088,655	\$ 4,046,809,230
<u>944,127,850</u>	<u>1,053,774,300</u>	<u>1,007,788,550</u>	<u>986,259,050</u>	<u>917,612,350</u>
<u>\$ 5,395,279,450</u>	<u>\$ 5,699,065,850</u>	<u>\$ 5,606,866,400</u>	<u>\$ 5,494,347,705</u>	<u>\$ 4,964,421,580</u>
\$ 3,327,952,350	\$ 3,480,892,950	\$ 3,451,602,900	\$ 3,328,660,655	\$ 2,920,197,630
<u>638,272,700</u>	<u>692,716,600</u>	<u>706,330,000</u>	<u>726,513,650</u>	<u>704,190,150</u>
<u>445,399,650</u>	<u>430,477,050</u>	<u>405,605,650</u>	<u>416,847,650</u>	<u>388,756,200</u>
<u>540,032,000</u>	<u>515,469,150</u>	<u>532,258,650</u>	<u>545,007,250</u>	<u>504,729,350</u>
<u>443,622,750</u>	<u>579,510,100</u>	<u>511,069,200</u>	<u>477,318,500</u>	<u>446,548,250</u>
<u>5,395,279,450</u>	<u>5,699,065,850</u>	<u>5,606,866,400</u>	<u>5,494,347,705</u>	<u>4,964,421,580</u>
<u>(221,811,375)</u>	<u>(289,755,050)</u>	<u>(255,534,600)</u>	<u>(238,659,250)</u>	<u>(223,274,125)</u>
<u>\$ 5,173,468,075</u>	<u>\$ 5,409,310,800</u>	<u>\$ 5,351,331,800</u>	<u>\$ 5,255,688,455</u>	<u>\$ 4,741,147,455</u>
<u>\$ 10.72500</u>	<u>\$ 10.72500</u>	<u>\$ 10.78580</u>	<u>\$ 10.78580</u>	<u>\$ 12.68580</u>
83.03%	84.78%	90.08%	94.61%	97.17%
95.89%	94.92%	95.44%	95.66%	95.50%

City of Sterling Heights, Michigan

Principal Property Taxpayers (Major Taxpayers) Current Year and Nine Years Ago

Company Name	Product/Service	Year Ended June 30, 2011			Year Ended June 30, 2002				
		Taxable Value	Rank	Percent of Total City Taxable Value		Taxable Value	Rank	Percent of Total City Taxable Value	
				Value	Rank			Value	Rank
Ford Motor Company	Automotive manufacturing and drive shafts	\$ 230,087,625	1	4.85	\$ 99,489,200	3	2.38		
Chrysler Group LLC	Automotive assembly and stamping	224,265,800	2	4.73	297,639,600	1	7.12		
DTE Energy	Public electric utility	36,196,200	3	0.76	48,378,700	4	1.16		
Detroit News Agency	Printing plant - Newspapers	32,231,850	4	0.68	17,210,200	9	0.41		
General Dynamics	Administrative engineering and design	31,090,850	5	0.66	26,854,600	6	0.64		
Lakeside Associates	Retail shopping center	30,144,150	6	0.64	31,533,500	5	0.75		
Laurel/Shoal Creek	Office and apartment complex	18,476,700	7	0.39	-	-	-		
Comcast Cable	Cable communications	17,827,800	8	0.38	-	-	-		
Ledd's Development	Office and business complex	14,799,500	9	0.31	15,937,450	10	-		
Market Place Properties	Retail shopping center	12,864,400	10	0.27	-	-	-		
Visteon Corporation	Automotive axles and shafts	-	-	-	167,114,750	2	4.00		
AIG Baker	Retail shopping center	-	-	-	18,933,400	7	0.45		
Consumers Energy	Public utility for gas	-	-	-	18,057,100	8	0.43		
	Ten largest taxpayers	647,984,875	<u>13.67</u>		741,148,500		<u>17.34</u>		
	Other taxpayers	<u>4,093,162,580</u>			<u>3,441,626,500</u>				
	Total taxable value	<u>\$ 4,741,147,455</u>			<u>\$ 4,182,775,000</u>				

Source: City of Sterling Heights Assessor's Office

City of Sterling Heights, Michigan

Ratios of General Bonded Debt Outstanding Last Ten Fiscal Years

Fiscal Year Ended June 30	Governmental Activities			Business-type Activities			Percentage of Estimated Total Taxable Value of Property (I)			Per Capita
	General Obligation Bonds	County Issued Bonds	Amounts Available in Debt Service Funds	County Issued Bonds	Total Primary Government	Population				
2002	\$ 12,180,000	\$ 11,319,602	\$ (62,846)	\$ -	\$ 23,436,756	125,800	0.4897	186.30		
2003	9,125,000	10,403,220	(15,300)	-	19,512,920	126,470	0.3701	154.29		
2004	33,745,000	9,936,539	(8,007)	-	43,673,532	127,270	0.7864	343.16		
2005	31,735,000	9,060,000	(61,570)	-	40,733,430	128,026	0.7079	318.17		
2006	29,705,000	8,230,000	(88,166)	-	37,846,834	128,692	0.6310	394.09		
2007	21,590,000	7,325,000	(66,116)	-	28,848,884	128,914	0.4630	223.78		
2008	23,635,000	6,495,000	(68,694)	-	30,061,306	128,500	0.4711	233.94		
2009	20,985,000	5,590,000	(150,053)	-	26,424,947	128,500	0.4141	205.64		
2010	8,820,000	4,635,000	(9,821)	3,702,531	17,147,710	128,500	0.2886	133.45		
2011	7,880,000	3,655,000	(11,873)	27,799,300	39,322,427	129,699	0.6619	303.18		

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(I) See the schedule of assessed taxable value for property value data.

City of Sterling Heights, Michigan

Ratios of Outstanding Debt by Type Last Ten Fiscal Years

Fiscal Year Ended June 30	Governmental Activities					Business-type Activities		Total Primary Government	Percentage of Personal Income (I)	Population	Per Capita
	General Obligation Bonds	Michigan Transportation Bonds	Special Assessment Bonds	County- issued Bonds	County- issued Bonds						
2002	\$ 12,180,000	\$ 19,175,000	\$ 775,000	\$ 11,319,602	\$ -	\$ 43,449,602	1.38%	125,800	\$ 345.39		
2003	9,125,000	18,995,000	575,000	10,403,220	-	39,098,220	1.24%	126,470	309.15		
2004	33,745,000	15,910,000	350,000	9,936,539	-	59,941,539	1.89%	127,270	470.98		
2005	31,735,000	19,735,000	125,000	9,060,000	-	60,655,000	1.91%	128,026	473.77		
2006	29,705,000	17,690,000	-	8,230,000	-	55,625,000	1.74%	128,692	432.23		
2007	21,590,000	20,610,000	-	7,325,000	-	49,525,000	1.55%	128,914	384.17		
2008	23,635,000	18,710,000	-	6,495,000	-	48,840,000	1.52%	128,500	380.08		
2009	20,985,000	16,535,000	3,260,000	5,590,000	-	46,370,000	1.44%	128,500	360.86		
2010	8,820,000	16,130,000	3,160,000	4,635,000	3,702,531	36,447,531	1.14%	128,500	283.64		
2011	7,880,000	14,180,000	3,060,000	3,655,000	30,584,068	59,359,068	1.89%	129,699	457.67		

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(I) See the schedule of demographic and economic statistics for personal income data.

City of Sterling Heights, Michigan

Direct and Overlapping Governmental Activities Debt June 30, 2011

Direct Debt

General Obligation Bonds

04/27/05	Limited Tax	\$ 2,330,000
04/01/07	Limited Tax	925,000
06/09/08	Fire Stations, UT	<u>4,625,000</u>

\$ 7,880,000

Michigan Transportation Fund Bonds

12/09/03	Refunding Bonds, Series 2003	495,000
04/05/05	Refunding Bonds, Series 2005	2,000,000
05/19/05	Bonds	4,300,000
04/01/07	Bonds	4,100,000
03/02/10	Refunding Bonds, Series 2010	1,715,000
06/22/10	Recovery Zone Bonds, Series 2010	<u>1,570,000</u>

14,180,000

Special Assessment Bonds

08/03/08	Improvements	3,060,000
----------	--------------	-----------

Share of County-issued Drain Bonds

Macomb County utility drains	<u>3,655,000</u>
------------------------------	------------------

Total direct debt outstanding 28,775,000

Indirect Debt

Share of County-issued Drain Bonds

Macomb County - Series A MID	26,725,795
MID District - 2008 North Gratiot	2,536,859
MID District - 2010 North Gratiot	247,909
Oakland County (OMID)	<u>1,073,505</u>

30,584,068

Total direct and indirect debt outstanding 59,359,068

Less:

MTF Bonds	14,180,000
Special Assessment Bonds	3,060,000
MID District Special Assessments	<u>2,784,768</u>

20,024,768

Net direct and indirect debt outstanding 39,334,300

Overlapping Debt

40.46% Utica Community School District	201,265,000	81,431,819
43.96% Warren Consolidated School District	195,415,000	85,904,434
16.26% Macomb County at large	53,050,241	8,625,969
16.26% Macomb Community College	14,320,000	<u>2,328,432</u>

178,290,654

Total overlapping debt \$ 217,624,954

Source: Municipal Advisory Council of Michigan, Detroit, Michigan

City of Sterling Heights, Michigan

Legal Debt Margin
June 30, 2011

Valuation for debt limit:

2010 state equalized value (2011 fiscal year)	\$ 4,655,554,730
Addback of assessed value equivalent - 2010 SEV of Act 198 exemptions	<u>447,303,150</u>
Total valuation for debt limit	<u>\$ 5,102,857,880</u>
Debt limit (10 percent of state equalized valuation and equivalent) (1)	\$ 510,285,788
Debt applicable to limit:	
Amount of total direct outstanding debt	\$ 59,359,068
Less: Michigan Transportation Fund Bonds	14,180,000
Special Assessment Bonds	3,060,000
MID District Special Assessments	<u>2,784,768</u>
Net debt applicable limit	<u>39,334,300</u>
Legal debt margin	<u>\$ 470,951,488</u>

(1) Debt limit set forth in Section 4a, Act 279 of 1909 and Act 202, P.A. 1943, as amended by Act 42, P.A. 1960

City of Sterling Heights, Michigan

Legal Debt Margin Information Last Ten Fiscal Years

	Fiscal Year				
	2002	2003	2004	2005	2006
Debt limit	\$ 504,750,820	\$ 553,280,216	\$ 577,993,680	\$ 597,544,820	\$ 622,283,210
Total net debt applicable to limit	<u>(23,499,602)</u>	<u>(19,528,220)</u>	<u>(43,681,539)</u>	<u>(40,795,000)</u>	<u>(37,935,000)</u>
Legal debt margin	<u>\$ 481,251,218</u>	<u>\$ 533,751,996</u>	<u>\$ 534,312,141</u>	<u>\$ 556,749,820</u>	<u>\$ 584,348,210</u>
Total net debt applicable to the limit as a percentage of debt limit	4.66%	3.53%	7.56%	6.83%	6.10%

	Fiscal Year				
	2007	2008	2009	2010	2011
Debt limit	\$ 645,406,095	\$ 667,117,910	\$ 619,634,650	\$ 579,456,641	\$ 510,285,788
Total net debt applicable to limit	<u>(28,915,000)</u>	<u>(30,130,000)</u>	<u>(26,575,000)</u>	<u>(17,157,531)</u>	<u>(39,334,300)</u>
Legal debt margin	<u>\$ 616,491,095</u>	<u>\$ 636,987,910</u>	<u>\$ 593,059,650</u>	<u>\$ 562,299,110</u>	<u>\$ 470,951,488</u>
Total net debt applicable to the limit as a percentage of debt limit	4.48%	4.52%	4.29%	2.96%	7.71%

City of Sterling Heights, Michigan

Pledged Revenue Coverage Last Ten Fiscal Years

Fiscal Year Ended	Limited Tax Obligation Bonds						Coverage	
	Collections	Debt Service			Total			
		Principal	Interest					
2002	\$ 1,058,238	\$ 725,000	\$ 331,535	\$ 1,056,535			1.002	
2003	683,173	375,000	306,723	681,723			1.002	
2004	668,476	305,000	288,102	593,102			1.127	
2005	640,723	415,000	226,639	641,639			0.999	
2006	652,798	475,000	177,366	652,366			1.001	
2007	681,050	485,000	170,614	655,614			1.039	
2008	1,339,073	1,075,000	263,348	1,338,348			1.001	
2009	1,389,151	1,155,000	233,238	1,388,238			1.001	
2010	1,047,761	890,000	157,097	1,047,097			1.001	
2011	647,941	485,000	132,554	617,554			1.049	
Michigan Transportation Fund Bonds								
Fiscal Year Ended	Debt Service						Coverage	
	Collections	Debt Service			Total			
		Principal	Interest					
2002	\$ 3,175,854	\$ 1,660,000	\$ 1,031,928	\$ 2,691,928			1.180	
2003	3,397,164	1,758,227	1,060,828	2,819,055			1.205	
2004	3,655,236	1,855,000	837,354	2,692,354			1.358	
2005	3,530,329	1,885,000	636,159	2,521,159			1.400	
2006	3,488,938	2,045,000	677,163	2,722,163			1.282	
2007	3,450,943	1,730,000	626,665	2,356,665			1.464	
2008	3,398,754	1,900,000	735,012	2,635,012			1.290	
2009	3,281,889	2,175,000	754,573	2,929,573			1.120	
2010	3,241,801	2,115,000	611,907	2,726,907			1.189	
2011	3,289,715	1,950,000	559,979	2,509,979			1.311	
Special Assessment Bonds								
Fiscal Year Ended	Debt Service						Coverage (I)	
	Collections (I)	Debt Service			Total			
		Principal	Interest					
2002	\$ 169,933	\$ 200,000	\$ 42,694	\$ 242,694			0.700	
2003	120,853	200,000	33,188	233,188			0.518	
2004	105,391	225,000	22,875	247,875			0.425	
2005	27,200	225,000	12,338	237,338			0.115	
2006	-	125,000	3,125	128,125			-	
2007	-	-	-	-			-	
2008	-	-	-	-			-	
2009	331,654	-	-	-			-	
2010	629,640	100,000	127,000	227,000			2.774	
2011	608,980	100,000	123,400	223,400			2.726	

(I) Customers may choose to make special assessment payments up front to avoid paying interest to the City, which creates uneven payment streams over the life of the assessment.

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Demographic and Economic Statistics Last Ten Fiscal Years

Fiscal Year Ended June 30	Estimated Population (1)	Median Age (2)	Education Age 25 or Older (2)			Per Capita Income (2)/(4)	Income (in thousands)	Number of Households (2)	Median	
			High School Graduate or Higher	Bachelor's Degree or Higher					Household Income (1)	Unemployment Rate (3)/(4)
2002	125,800	35-39	84.0%	22.9%	\$ 24,958	\$ 3,139,716	48,775	\$ 60,494	4.8%	
2003	126,470	35-39	84.0%	22.9%	25,806	3,263,685	48,990	60,494	5.3%	
2004	127,270	35-39	84.0%	22.9%	26,193	3,333,583	49,260	60,494	5.4%	
2005	128,026	35-39	84.0%	22.9%	26,717	3,420,471	49,405	60,494	5.6%	
2006	128,692	35-39	84.0%	22.9%	27,519	3,541,475	49,871	60,494	6.3%	
2007	128,914	35-39	84.0%	22.9%	28,399	3,661,029	50,761	60,494	7.3%	
2008	128,500	35-39	84.0%	22.9%	29,308	3,766,078	50,375	60,494	8.8%	
2009	128,500	35-39	84.0%	22.9%	28,546	3,668,161	49,735	60,494	14.1%	
2010	128,500	35-39	84.0%	22.9%	29,430	3,781,755	49,339	60,494	13.6%	
2011	129,699	40-44	84.0%	22.9%	24,213	3,140,402	49,508	53,390	9.8%	

Sources:

(1) United States Census Bureau - 2000/2010 Census and 2010 American Community Survey One Year Estimates

(2) Southeast Michigan Council of Governments (SEMCOG)

(3) Michigan Department of Career Development, Employment Security Agency, Office of Labor Market Information

(4) Michigan Department of Technology, Labor & Budget

City of Sterling Heights, Michigan

Miscellaneous Demographics

			Income Characteristics	
			Household Income	Number of Households
Population			Less than \$14,999	4,947
2010 U.S. Census			\$15,000 - \$34,999	10,260
2000 U.S. Census			\$35,000 - \$49,999	7,827
1990 U.S. Census			\$50,000 - \$74,999	9,638
1980 U.S. Census			\$75,000 - \$99,999	7,914
			\$100,000 or more	8,732
Housing Tenure			Labor Characteristics	
Types	2010	2000	Number of Employees	
Owner occupied	37,685	36,584	Management, professional, and related	19,876
Renter occupied	11,766	9,735	Service	8,217
Vacant:			Sales and office	17,730
Seasonal/migrant	128	148	Natural resources, construction, and maintenance	3,472
Other vacant units	2,611	1,080	Production, transportation, and material moving	7,805
Total	52,190	47,547	Total	57,100
Household Characteristics			By Industry:	
Types	2010	2000		
With seniors 65+	14,229	10,252	Construction	2,606
Without seniors	35,222	36,067	Manufacturing	10,765
Two or more without children	21,007	19,041	Wholesale trade	1,523
Live alone, over 65	5,316	3,915	Retail trade	8,382
Live alone, under 65	7,791	7,245	Transportation, warehousing, and utilities	2,899
With children	15,337	16,118	Information	1,040
Total households	49,451	46,319	Finance, insurance, real estate, rental, and leasing	2,775
			Professional, scientific, management, administrative, and waste management services	5,000
			Educational, health, and social services	12,155
			Arts, entertainment, recreation, accommodation, and food services	4,020
			Other professional and related services	3,046
			Public administration	2,889
			Total	57,100
Age Statistics			Educational Characteristics	
Years	2010	2000	Households:	Number
Under 5	5.5%	6.2%	With earnings	39,074
5 to 19	18.7%	20.3%	With Social Security income	14,105
20 to 24	6.3%	6.1%	With retirement income	11,047
25 to 44	25.8%	30.4%	With supplemental security income	2,208
45 to 64	28.5%	25.2%	With cash public assistance income	1,457
Over 64	15.2%	11.8%	With food stamps/SNAP benefits	5,826

Source: United States Census Bureau - 2000/2010 Census and 2010 American Community Survey One Year Estimates

City of Sterling Heights, Michigan

Principal Employers (Major Employers) Last Fiscal Year and Nine Years Ago

Company Name	Product/Service	Year Ended June 30, 2011			Year Ended June 30, 2002		
		Employees	Rank	Total City Employment	Employees	Rank	Total City Employment
General Dynamics	Defense-related manufacturing	2,700	1	4.68%	1,425	6	2.15%
Chrysler Group LLC	Automotive assembly and stamping	2,500	2	4.33%	6,875	1	10.36%
Lakeside Associates	Retail shopping center	2,000	3	3.47%	2,500	4	3.77%
Ford Motor Company	Automotive axles and chassis components	1,400	4	2.43%	1,250	7	1.88%
Detroit News Agency	Printing plant - Newspapers	1,200	5	2.08%	1,200	8	1.81%
Utica Community Schools	Education (1)	1,150	6	1.99%	4,150	2	6.25%
Warren Consolidated Schools	Education (1)	790	7	1.37%	2,200	5	3.31%
City of Sterling Heights	Local government	543	8	0.94%	649	12	0.98%
Miliken Millwork, Inc.	Wooden and stainless steel doors and stairs	500	9	0.87%	-		
Kuka Flexible Production Systems, Inc.	Automotive interior	450	10	0.78%	-		
U.S. Farathane Corporation	Paints and finishes	450	11		550	14	0.83%
Faurecia	Interior systems	400	12	0.69%	-		
Mayco Plastics	Plastic injection moldings	400	13		-		
Key Safety Systems	Safety systems	400	14		-		
E & R Industrial Sales	Wholesaler industrial supplies	300	15		-		
Cadillac Products, Inc.	Plastic bags, sheets, paper	-			750	10	1.13%
MNP	Nut, bolt, and wire manufacturer	-			1,200	9	1.81%
T.R.W.	Auto subcomponent assembly	-			720	11	1.08%
Visteon Corporation	Automotive axles and drive shafts	-			2,800	3	4.22%
Collins & Aikman	Automotive interiors	-			590	13	0.89%
Lamar Modular & Plastics Division	Plastic injections	-			389	15	0.59%
	Fifteen largest employers	15,183		26.32%	27,248		41.04%
	Other employers	42,499		73.68%	39,140		58.96%
	Total employment (2)	57,682			66,388		

(1) Effective June 30, 2008, employees reported include those working at locations within City boundaries in place of district wide.

(2) State of Michigan, Department of Energy, Labor & Economic Growth, Department of Labor and Statistics

Source: City of Sterling Heights, Economic Development Office

City of Sterling Heights, Michigan

Operating Indicators by Function Last Ten Fiscal Years

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Government										
Election Data										
Registered voters	79,426	79,100	79,221	83,461	83,910	83,639	84,082	88,258	85,345	85,953
Voters at polls	9,285	30,309	10,445	45,608	7,654	34,405	3,842	44,074	10,138	39,285
Absentee ballots	6,981	8,908	7,113	14,801	7,605	11,904	7,556	16,972	7,963	11,037
Percent voting	20.48%	49.58%	22.16%	72.38%	18.18%	55.37%	13.56%	69.17%	21.00%	46.00%
41A District Court										
Court Cases										
Civil	2,000	2,300	2,508	2,709	2,862	3,239	3,867	3,947	3,816	4,037
Criminal	5,827	5,920	4,782	3,994	4,211	4,533	5,677	4,922	4,818	4,254
Landlord and tenant	1,930	2,200	2,285	2,203	2,226	2,433	2,471	2,653	2,407	2,442
Small claims	657	612	610	513	488	432	425	524	448	451
Traffic	20,859	25,044	27,282	25,338	24,256	27,143	27,709	30,422	35,540	31,074
Public Safety										
Police Protection										
Adult arrests	3,198	2,988	2,707	2,406	2,560	3,326	3,747	3,079	3,000	2,691
Civil infractions	14,303	18,450	18,605	23,627	23,819	26,582	27,596	29,855	32,724	29,315
Group A offenses (2)	6,873	6,897	6,260	6,474	7,926	7,873	7,361	6,686	6,484	5,769
Group B offenses (3)	2,808	2,424	3,623	4,170	4,609	4,491	3,433	2,632	2,370	1,960
Injury accidents	747	766	884	862	810	806	1,004	824	704	752
Juvenile arrests	318	225	246	183	239	251	174	156	173	159
OUIL arrests	541	405	412	361	375	328	340	414	394	297
Parking violations	1,616	2,293	1,696	1,713	1,730	2,016	1,706	1,702	1,992	1,125
Property damage	3,261	3,317	3,637	3,669	3,663	3,415	4,353	3,191	3,071	3,408
Private property damage	1,546	1,419	1,426	1,439	1,304	1,322	1,133	1,037	944	846
Total traffic violations	24,543	27,012	24,208	26,972	25,379	29,166	30,484	32,154	37,022	32,752
Fire Protection										
Emergency alarms answered	8,425	5,966	9,215	9,292	9,573	10,261	10,500	10,480	10,383	11,062
Fire inspections conducted	4,139	3,871	4,427	3,832	4,204	4,624	3,767	3,874	2,859	2,288
Inspection violations issued	3,239	3,225	4,451	3,697	6,020	10,292	9,391	7,495	5,831	4,397
Medical emergencies	5,517	5,888	6,551	6,719	6,927	7,493	7,691	7,745	7,693	8,617
Training hours completed	36,491	32,839	34,583	35,809	34,124	33,538	33,857	31,121	30,955	29,986
Recreation and Culture										
Parks and Recreation										
Adult athletics attendance	19,383	14,150	13,980	15,825	19,480	18,782	20,135	15,360	25,477	21,301
Instructional swim attendance	8,281	9,025	9,640	9,592	8,896	9,386	7,570	7,100	3,417	3,803
Instructional rec. attendance	26,620	24,330	24,285	24,970	28,070	26,567	25,666	24,795	23,999	23,933
Nature program attendance	15,460	27,290	28,350	29,362	22,748	24,582	24,399	23,321	27,708	23,374
Senior program attendance	111,120	121,990	126,280	111,020	111,610	109,528	109,970	116,564	117,570	102,577
Special event attendance	68,530	68,480	68,500	71,930	72,725	73,000	73,100	74,449	65,551	72,321
Special recreation program attendance	15,585	15,700	15,870	15,895	16,870	14,878	16,060	15,679	11,351	10,803
Summer playground attendance	21,097	19,120	15,600	11,646	9,992	11,025	14,094	11,370	7,565	12,160
Library										
Book van deliveries	9,126	9,759	12,623	12,844	12,820	11,242	9,318	8,818	7,909	7,367
Community meeting room reservations	N/A	N/A	295	150	299	341	384	1,200	1,289	1,209
In-house materials usage	N/A	190,771	159,897	139,897	140,033	144,698	139,973	121,907	93,714	107,155
Interlibrary loan requests	45,832	86,855	88,657	99,078	109,995	120,393	123,142	125,167	110,778	97,588
Interlibrary loans - Lent	N/A	70,782	75,931	89,405	100,260	109,814	113,947	117,671	105,692	87,255
Items circulated	690,262	687,070	662,579	641,730	648,967	635,425	616,323	625,688	627,496	614,905
Library visits	296,249	309,531	371,398	388,706	417,601	420,716	442,768	581,046	560,035	484,259
Online computer uses	187,950	296,414	357,869	441,111	456,752	492,979	514,794	552,503	583,260	610,054
Program attendance	24,004	23,046	22,034	22,780	21,275	25,470	36,204	37,639	31,664	23,184
Reference transactions	135,514	137,941	132,104	141,056	133,617	132,557	141,610	148,978	131,039	120,873
Registered borrowers	53,822	53,435	53,476	57,050	50,390	50,599	51,098	52,043	53,114	53,181

City of Sterling Heights, Michigan

Operating Indicators by Function (Continued) Last Ten Fiscal Years

	Fiscal Year									
	2002	2003	2004	2005	2006 (4)	2007	2008	2009	2010	2011
Water and Sewer Services										
Customers: (5)										
Residential	34,049	34,302	34,529	34,535	34,850	35,021	35,048	34,811	34,846	34,869
Commercial/Industrial	3,534	3,582	3,741	4,185	4,272	4,477	4,539	4,233	4,234	4,126
Water (in thousand cubic feet):										
Purchased from Detroit	843,530	885,283	828,398	867,931	803,969	775,817	786,726	716,384	659,817	683,223
Sold to residents	845,667	881,780	815,645	811,252	852,661	789,033	827,893	711,126	667,792	692,621
Rates (per thousand): (4)										
1,000 CU. FT.	\$ 20.72	\$ 22.77	\$ 22.72	\$ 25.42	\$ 27.13	\$ 28.64	\$ 30.74	\$ 31.94	\$ 37.22	\$ 40.59
Next 2,000 CU.FT.	19.08	21.28	(1)	(1)	27.13	28.64	30.74	31.94	37.22	40.59
Over 3,000 CU.FT.	18.01	20.57	(1)	(1)	27.96	29.50	31.67	32.90	38.32	41.77
Sewer only - Per billing	15.00	15.00	15.00	15.00	15.00	25.00	30.00	35.00	45.00	50.00

- (1) During July 1, 2003 - June 30, 2005, the City used a single-tier rate structure.
- (2) Aggravated assault, arson, burglary, criminal sexual conduct and murder, larceny, motor vehicle theft, robbery, etc.
- (3) Assault, disorderly conduct, family trouble, negligent homicide, obstructing justice, etc.
- (4) Effective July 1, 2005, the City implemented a two-tier rate structure.
- (5) Beginning in FY 2009, the customer count excludes approximately 370 and 260 inactive or suspended accounts for commercial and residential totals, respectively.

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Capital Asset Statistics by Function Last Ten Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Government										
Buildings										
City Center Commons										
41A District Court										
Public Safety										
Police Protection										
Stations										
Vehicles - Marked	48	48	48	49	49	49	54	54	54	54
Vehicles - Unmarked	68	68	68	68	80	82	79	77	64	63
Fire Protection										
Stations	5	5	5	5	5	5	5	5	5	5
Vehicles - Extinguishment	12	13	14	14	14	15	16	16	16	16
Public Works										
Streets and Sidewalks										
Miles of City:										
Primary streets	60	60	60	60	60	60	60	63	63	63
Secondary streets	282	285	285	286	287	289	289	286	286	286
Sidewalks	537	565	565	566	605	607	608	609	609	610
Bridges	11	11	11	11	11	11	11	11	11	11
Buildings	2	2	2	2	2	2	2	2	2	2
Street lights	2,490	2,495	2,475	2,472	2,508	2,513	2,520	2,520	2,520	2,520
Vehicles - Snow plows	21	21	21	21	20	21	22	22	23	22
Water and Sewer Services										
Fire hydrants	6,597	6,633	6,796	6,932	7,015	7,050	7,162	7,203	7,221	7,226
Miles of water mains	544	554	558	563	569	570	573	574	575	576
Miles of sanitary sewers	415	415	422	424	428	429	430	430	430	430
Recreation and Culture										
Parks and Recreation										
Acres	811	820	820	820	820	820	820	820	820	820
Developed parks	27	28	28	28	28	28	28	28	28	28
Buildings	3	3	3	3	3	3	3	3	3	3
Library										
Book collections	191,481	197,472	186,992	189,822	190,791	188,365	197,412	199,968	203,593	204,977
Other collections (I)	25,442	28,250	24,622	23,937	23,776	35,619	36,619	37,344	37,051	37,603
Buildings										
Vehicles - Library van										

(I) Includes art prints, audio/video cassettes, compact discs, posters, puppets, software discs, etc.

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Building Permits at Market Value Last Ten Fiscal Years

Fiscal Year Ended June 30	Residential				Total Residential
	New Construction		Additions/Improvements		
	Number	Value	Number	Value	
2002	513	\$ 51,306,550	1,766	\$ 2,737,615	\$ 54,044,165
2003	763	76,609,958	1,078	3,017,213	79,627,171
2004	631	59,756,113	787	2,218,100	61,974,213
2005	546	54,325,044	876	1,830,299	56,155,343
2006	269	48,957,415	734	1,601,036	50,558,451
2007	152	25,895,984	598	2,454,254	28,350,238
2008	37	8,034,365	536	1,503,824	9,538,189
2009	14	3,481,198	429	1,261,884	4,743,082
2010	70	12,386,830	360	839,587	13,226,417
2011	87	15,494,221	402	1,147,729	16,641,950
Commercial					
Fiscal Year Ended June 30	New Construction		Additions/Improvements		Total
	Number	Value	Number	Value	Commercial
2002	42	\$ 25,736,795	295	\$ 16,143,812	\$ 41,880,607
2003	19	17,228,169	265	18,095,804	35,323,973
2004	29	28,123,162	272	59,264,545	87,387,707
2005	31	34,143,253	271	26,257,489	60,400,742
2006	24	25,096,450	302	26,567,543	51,663,993
2007	24	44,813,309	254	40,418,973	85,232,282
2008	17	38,153,479	239	26,322,149	64,475,628
2009	16	5,148,379	160	23,119,046	28,267,425
2010	27	31,115,804	165	28,194,133	59,309,937
2011	20	91,661,691	122	21,444,771	113,106,462

Source: City of Sterling Heights Office of Building Services

City of Sterling Heights, Michigan

Full-time Equivalent City Government Employees by Function Last Ten Fiscal Years

	Full-time and Part-time Employees as of June 30									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Function										
General government	99	97	95	95	94	95	83	78	71	74
41A District Court	37	36	38	38	40	40	40	39	40	40
Public safety:										
Police	263	259	258	259	260	260	261	259	251	243
Fire	111	107	107	107	108	108	106	106	104	101
Public works:										
City development (2)	51	50	50	50	32	32	37	32	32	24
Public works	45	43	43	43	43	43	42	40	37	34
Street services	23	23	23	23	23	23	23	21	21	21
Engineering (1)	-	-	-	-	19	19	17	14	13	11
Recreation and culture:										
Parks and recreation	16	16	16	16	16	16	16	13	12	11
Library	42	41	41	41	41	41	42	42	42	41
Water and sewer	41	41	41	41	41	41	41	40	39	39
Total	728	713	712	713	717	718	708	684	662	639

(1) Prior to 2007, engineering employees were included in city development.

(2) Prior to 2008, information technology employees were included in general government.

Source: City of Sterling Heights

Continuing Disclosure

City of Sterling Heights, Michigan

State-shared Revenue Last Ten Fiscal Years

Fiscal Year <u>Ended June 30</u>	Modified Accrual <u>Basis of Accounting</u>	Accrual Basis of <u>Accounting</u>
2002	\$ 13,315,069	\$ 13,315,069
2003	12,253,193	13,114,050
2004	11,405,282	11,249,778
2005	11,072,350	11,127,156
2006	10,999,284	11,003,347
2007	10,861,805	10,675,667
2008	10,683,045	10,675,667
2009	10,487,825	10,183,758
2010	9,136,700	9,057,434
2011	9,368,599	9,057,434

Gas and Weight Taxes Last Ten Fiscal Years

Fiscal Year <u>Ended June 30</u>	Type of Street		Total Gas and Weight Tax (Act 51) Receipts
	Major Roads	Local Roads	
2002	\$ 4,836,746	\$ 1,514,962	\$ 6,351,708
2003	4,937,259	1,857,068	6,794,327
2004	5,308,588	2,001,883	7,310,471
2005	5,124,980	1,935,678	7,060,658
2006	5,063,169	1,914,706	6,977,875
2007	5,006,831	1,895,054	6,901,885
2008	4,933,090	1,864,418	6,797,508
2009	4,763,221	1,800,557	6,563,778
2010	4,719,496	1,764,105	6,483,601
2011	4,788,874	1,790,555	6,579,429

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Labor Agreements

Name	Contract Expiration Date	Actual Number of Employees Covered
Union Employees		
Technical/Office Employees Michigan Association of Public Employees (MAPE)	6/30/2012	84
Police Clerical Employees Michigan Association of Police (MAP)	6/30/2011	22
Emergency Dispatchers Police Officers Association of Michigan (POAM)	6/30/2012	24
Department of Public Works Field Employees Teamsters, Local 214	6/30/2012	61
Department of Public Works Supervisors AFSCME, Local 1917, Council 25	6/30/2012	6
Firefighters International Association of Firefighters, Local 1557	6/30/2012	96
Police Officers Michigan Association of Police (MAP)	6/30/2011	125
Police Command Officers Sterling Heights Police Command Officers Association	6/30/2012	35
Court Clerical AFSCME, Local 1884, Council 25	6/30/2013	23
Professional and Technical Employees United Auto Workers, Unit 40, Local 412	6/30/2013	48
Supervisory Employees United Auto Workers, Unit 41, Local 412	6/30/2012	17
Executive Employees Michigan Association of Public Employees (MAPE)	6/30/2013	6
Nonunion Employees		
City Manager	N/A	1
41A District Court Judges	N/A	3
41A District Court Administration	N/A	10
Human Resource Director	N/A	1

Source: City of Sterling Heights